



COVERSHEET

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| Minister | Hon Dr Ayesha Verrall | Portfolio | Research, Science and Innovation |
| Title of Cabinet paper | Research and Development Tax Incentive In-year Payments | Date to be published | 31 January 2023 |

| List of documents that have been proactively released | | |
|--|--|--|
| Date | Title | Author |
| 30 March 2022 | <i>Research and Development Tax Incentive In-year Payments (1B)</i> | Minister of Research, Science and Innovation |
| 30 March 2022 | <i>DEV-22-MIN-0062 Minute (1C)</i> | Cabinet Office |
| 21 June 2022 | <i>2122-4602 Next steps for in-year payments of the R&D tax incentive (1D)</i> | MBIE |
| 15 July 2022 | <i>T2022-1322 Loan request for in-year payments of the Research and Development Tax Incentive (1E)</i> | The Treasury |
| 29 September 2022 | <i>T2022/1953 Delegation of loan approval for the Research and Development Tax Incentive in-year payments (1F)</i> | The Treasury |
| 15 November 2022 | <i>2223-1557 In-year payments of the RDTI - final design and scheme commencement (1G)</i> | MBIE |

Information redacted

YES

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Some information has been withheld for the reason of privacy of natural persons.



Cabinet Economic Development Committee

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Research and Development Tax Incentive In-year Payments

Portfolio **Research, Science and Innovation**

On 30 March 2022, the Cabinet Economic Development Committee:

Background

- 1 **noted** that the Research and Development tax incentive (RDTI) has been operating since 1 April 2019;
- 2 **noted** that at present, the RDTI credit or refund is paid in one lump sum to businesses after they have filed their income tax return, generally about 15 months after the end of their income tax year;
- 3 **noted** that:
 - 3.1 in-year payment of the RDTI, wherein an RDTI entitlement is paid in the same year the R&D expenditure is incurred, would increase the value of the RDTI to recipients;
 - 3.2 stakeholders strongly support in-year payments, and want them to be delivered soon;

In-year payments for the RDTI

- 4 **noted** that officials have investigated and consulted on the following three options for delivering in-year payments for the RDTI:
 - 4.1 through the tax system;
 - 4.2 through government loans; or
 - 4.3 through a government-private sector hybrid approach;
- 5 **noted** that:
 - 5.1 stakeholders have a clear preference for in-year payments through the tax system, which would be simplest for businesses to use;
 - 5.2 there was also interest in a government loan or government-private sector hybrid approach;

- 6 **noted** that independent economic analysis showed in-year payments through the tax system or with government loans would result in economic benefits to both the firms that undertake R&D and net benefits to New Zealand;
- 7 **noted** that in-year payments through the tax system has the most benefits, but that Inland Revenue has competing work priorities and recommends targeting implementation for the 2024/25 income tax year;

Temporary mechanism

- 8 **noted** that considering Inland Revenue's implementation timeframe for the tax system solution, the Minister of Research, Science and Innovation and the Minister of Revenue have agreed to proceed with a temporary mechanism to provide in-year payments with administrative support from a private sector supplier;
- 9 **noted** that Inland Revenue will seek funding in 2023/24 for implementation and ongoing costs for a permanent solution in the tax system to be funded from funding already appropriated for the broader RDTI scheme;
- 10 **noted** that the temporary mechanism to provide in-year payments would operate in the 2022/23, 2023/24 and 2024/25 tax years, and would be superseded by Inland Revenue implementing in-year payments through the tax system;
- 11 **noted** that to provide surety of funding so that officials can engage with potential private sector providers on a certain basis, the Minister of Research, Science and Innovation is seeking approval to appropriate funding sufficient to operate the temporary mechanism as a loan scheme;
- 12 **noted** that such a temporary mechanism is estimated to require the appropriation of \$779.586 million, comprising:
- 12.1 capital expenditure of \$583.5 million for the loans;
 - 12.2 fair value write- down of \$187.236 million;
 - 12.3 administration costs of \$8.850 million;
- 13 **noted** that:
- 13.1 this funding would provide 3,650 in-year payment loans to over three tax years (2022/23, 2023/24 and 2024/25) to approximately 1,400 businesses, with capital expenditure of \$583.5 million;
 - 13.2 approximately \$525.15 million of loaned funds are expected to be repaid;
- 14 **noted** that there are significant operational risks to this temporary mechanism that officials will need to investigate and seek legal advice on, and that the Minister of Research, Science and Innovation will seek Cabinet agreement once the risks have been more fully assessed;
- 15 **noted** that uptake of the RDTI has been lower than expected to date, and that the availability of in- year payments and other improvements will support the increased uptake of the RDTI over time;
- 16 **noted** that under section 65L of the Public Finance Act 1989, the Minister of Finance, on behalf of the Crown, may lend money to a person or organisation if it appears to the Minister to be necessary or expedient in the public interest to do so;

- 17 **noted** that the Minister of Finance’s approval to any in-year payments loans under section 65L of the Public Finance Act will be sought separately, following Cabinet approval of this project;
- 18 **agreed in principle** to establish a mechanism to provide in-year payments of the RDTI, subject to further operational policy work, design, and engagement with potential private sector partners;
- 19 **authorised** the Minister of Finance, the Minister of Research, Science and Innovation, and the Minister of Revenue to make final decisions on the operational design of such a scheme;

Financial implications

- 20 **agreed** to increase spending to provide for potential costs associated with the policy decision in paragraph 18 above, with the following impacts on the operating balance and net core Crown debt:

| | \$m – increase/(decrease) | | | | | | |
|--|---------------------------|----------------|----------------|----------------|------------------|-----------------|-------------------------------|
| Vote Business, Science and Innovation | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 & outyears |
| Operating Balance and Net Core Crown Debt Impact | - | 1.450 | 2.200 | 2.200 | 3.000 | - | - |
| Operating Balance Impact Only | 6.355 | 80.525 | 36.466 | 37.632 | 26.257 | - | - |
| Net Core Crown Debt Impact Only | 40.500 | 171.375 | 91.725 | (21.750) | (215.250) | (66.600) | - |
| No Impact | - | - | - | - | - | - | - |
| Total | 46.855 | 253.350 | 130.391 | 18.082 | (185.993) | (66.600) | - |

- 21 **agreed** to establish the following new multi-year appropriations, to run from 1 April 2022 to 30 June 2026:

| Vote | Appropriation Minister | Title | Type | Scope |
|---------------------------------------|--|---|--------------------------------------|---|
| Vote Business, Science and Innovation | Minister of Research, Science and Innovation | Research, Science and Innovation: In-year payments loans | Non-departmental Capital Expenditure | This appropriation is limited to providing loans to eligible businesses in anticipation of their research and development tax credit. |
| Vote Business, Science and Innovation | Minister of Research, Science and Innovation | Research, Science and Innovation: In-year payments fair value write-down and impairment | Non-departmental other expense | This appropriation is limited to the fair value write-down of providing loans in anticipation of firms’ research and development tax credits, as well as any subsequent impairment. |

22 **agreed** to establish the following new appropriations:

| Vote | Appropriation Minister | Title | Type | Scope |
|---------------------------------------|--|---|---------------------------------|--|
| Vote Business, Science and Innovation | Minister of Research, Science and Innovation | Research, Science and Innovation: Departmental administration of in-year payments loans 2022-2026 | Departmental output expense | This appropriation is limited to the departmental administrative costs of providing loans in anticipation of firms' anticipated research and development tax credit. |
| Vote Business, Science and Innovation | Minister of Research, Science and Innovation | Research, Science and Innovation: Non-departmental administration of in year payments loans 2022-2026 | Non-departmental output expense | This appropriation is limited to the non-departmental administrative costs of providing loans in anticipation of firms' anticipated research and development tax credit. |

23 **approved** the following forecast change to give effect to the policy decision in paragraph 18 above:

| | \$m – increase/(decrease) | | | | | |
|--|----------------------------------|----------------|----------------|----------------|----------------|-----------------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 and outyears |
| Vote Revenue Minister of Revenue | | | | | | |
| Non-departmental Other Expenses: Research, Science and Innovation: R&D Tax Incentive | (6.355) | (81.975) | (38.666) | (39.832) | (29.258) | - |

24 **approved** the following changes to further give effect to the policy decision in paragraph 18 above:

| | \$m – increase/(decrease) | | | | | |
|---|---------------------------|---------|---------|---------|---------|----------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 and outyears |
| Vote Business, Science and Innovation Minister of Research, Science and Innovation | 583.500 | | | | | - |
| Non-departmental Capital Expenditure: Research, Science and Innovation: In-year payments loans | | | | | | |
| Departmental Output Expenses: Research, Science and Innovation: Departmental administration of in-year payments loans 2022-2026 | - | 0.850 | 1.000 | 1.000 | 0.800 | - |
| Non-departmental Output Expenses: Research, Science and Innovation: Non-departmental administration of in-year payments loans 2022-2026 | - | 0.600 | 1.200 | 1.200 | 2.200 | - |
| Non-departmental Other Expenses: Research, Science and Innovation: In-year payments fair value write-down and impairment | 187.236 | | | | | - |

25 **noted** that the capital expense can be treated as fiscally neutral, as the loans are expected to be repaid within ten years;

26 **noted** that the indicative spending profile for the new multi-year appropriations described in paragraph 21 above is as follows:

| | \$m – increase/(decrease) | | | | | |
|---|---------------------------|---------|---------|---------|---------|----------------------|
| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 and outyears |
| Vote Business, Science and Innovation Minister of Research, Science and Innovation | | | | | | |
| Non-departmental Capital Expenditure: Research, Science and Innovation: In-year payments loans | 40.500 | 171.375 | 205.125 | 166.500 | - | - |
| Non-departmental Other Expenses: Research, Science and Innovation: In-year payments fair-value write down and impairment | 6.355 | 80.525 | 36.466 | 37.632 | 26.258 | - |

27 **agreed** that the changes to appropriations in the above paragraphs be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

28 **noted** that overall operating impact of the proposal is fiscally neutral, as the reduction in forecast spending in Vote Revenue is equal to the additional spending in Vote Business, Science and Innovation;

- 29 **authorised** the Minister of Finance and the Minister of Research, Science and Innovation to adjust the appropriations for fair value write-down and impairment, if needed.

Janine Harvey
Committee Secretary

Present:

Hon Grant Robertson (Chair)
Hon Dr Megan Woods
Hon David Parker
Hon Poto Williams
Hon Damien O'Connor
Hon Stuart Nash
Hon Michael Wood
Hon Dr David Clark
Hon Meka Whaitiri
Hon Phil Twyford
Rino Tirikatene, MP

Officials present from:

Office of the Prime Minister
Officials Committee for DEV