

April 2018

MANAGING THE TRANSITION FROM GROWTH GRANTS TO THE R&D TAX INCENTIVE

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THE GOVERNMENT IS CURRENTLY SEEKING FEEDBACK ON THE PROPOSED DESIGN OF A NEW R&D TAX INCENTIVE

The Government has released a discussion paper on its proposed R&D Tax Incentive for New Zealand 'FUELLING INNOVATION TO TRANSFORM OUR ECONOMY'

The Government is committed to introducing an R&D Tax Incentive to incentivise and support businesses to grow their investment in their R&D activity.

The Government's intent is that by introducing an R&D Tax Incentive it will:

- ◆ Drive faster growth of business R&D, and help New Zealand reach our goal of R&D expenditure comprising 2 per cent of Gross Domestic Product (GDP) by 2027
- ◆ Offer greater certainty to businesses
- ◆ Be accessible to a diverse range of businesses
- ◆ Complement and strengthen the Government's coordinated package of support for research, science and innovation
- ◆ Lead to greater innovative business activity, thus increasing employment, industry diversity, international engagement, profitability and overall sustainability.

GROWTH GRANTS WILL BE PHASED OUT OVER TIME

The Growth Grant scheme, administered by Callaghan Innovation, will be phased out with the introduction of the R&D Tax Incentive. This is because they are funding similar types of activity and have a similar purpose.

The Government wants to ensure a smooth transition is available for Growth Grants customers to the R&D Tax Incentive in a way that supports businesses to maintain and grow their R&D programmes over time.

This document sets out a proposed approach to the transition that is intended to:

- ◆ Maintain business confidence in government support for R&D
- ◆ Provide certainty and predictability of funding for businesses carrying out R&D
- ◆ Support the successful implementation of the R&D Tax Incentive
- ◆ Avoid a fall in businesses expenditure on R&D caused specifically by the transition arrangements
- ◆ Provide for a simple and efficient transition for existing Growth Grant recipient
- ◆ Avoid risk to the Government accounts
- ◆ Respond to the needs of various business types while ensuring no firms are specifically favoured or disadvantaged by the transition process.



WE ARE SEEKING YOUR VIEWS ON THE APPROACH TO THE TRANSITION

Your views will help ensure the proposed transition approach supports the principles identified above and will inform the development of the transition plan. Your insights will help us understand the impacts the transition process might have on your business and your ability to continue to invest confidently in R&D.

This document is intended to be read in conjunction with the discussion paper titled [‘FUELLING INNOVATION TO TRANSFORM OUR ECONOMY’](#).

Detail on how to provide feedback on the approach can be found on page 6.



SUMMARY OF PROPOSED TRANSITION APPROACH


The proposed transition approach from Growth Grants to the R&D Tax Incentive allows businesses with an active Growth Grant contract on 31 March 2019 to continue to receive their Growth Grant until 31 March 2020, at which point the Growth Grants programme will cease.

Growth Grant recipients have the option to transition onto the Tax Incentive from 1 April 2019.

New Growth Grant applications and extensions to existing Growth Grant contracts will close on 31 March 2019.

To support businesses that are making a loss or have insufficient tax liability to take advantage of the R&D Tax Incentive in the first year, the Government proposes to allow existing Growth Grant customers to transition onto a temporary grant that mirrors the R&D Tax Incentive for the 2019/20 year.

The remainder of this document sets out this proposed approach in more detail and outlines questions we are seeking your views on.




All businesses with an active Growth Grant on 31 March 2019 can continue to receive Growth Grant funding for any R&D activity performed through to 31 March 2020

To give businesses with an active Growth Grant enough time to adapt their internal systems and funding arrangements before Growth Grants end there will be a period of overlap where they can continue to receive Growth Grant funding while the R&D Tax Incentive is in place.

If you have an active Growth Grant contract on 31 March 2019, you can continue to claim Growth Grant funding for R&D activity you perform up until 31 March 2020.

- ◆ Any Growth Grant contracts that have an end date before or after 31 March 2020 will have a new end date of 31 March 2020
- ◆ You will not be able to receive funding from both the Tax Incentive and Growth Grant in the same tax year
- ◆ You can choose to end your Growth Grant contract early and transition onto the Tax Incentive from 1 April 2019. This must be done prior to making a claim for any eligible expenditure on R&D occurring from 1 April 2019.



The Growth Grant scheme will be closed to new applicants and extensions to existing contracts on 31 March 2019

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- ◆ Businesses with a Growth Grant will not be able to apply for an extension after 31 March 2019
- ◆ Businesses not currently on a Growth Grant that would have been eligible to apply after 31 March 2019 will be able to submit an R&D Tax Incentive claim through the tax system as part of their tax return.



Why 31 March 2020?

Providing one year of overlap between the introduction of the R&D Tax Incentive and the end of the Growth Grant scheme allows your business time to adapt internal systems and funding arrangements in preparation for the R&D Tax Incentive.

Each business is different and faces its own set of unique challenges. The Government is committed to making the transition from the Growth Grant to the Tax Incentive as smooth as possible for all businesses. This is why we are seeking your feedback on the steps that will be necessary to adjust your internal systems and whether your funding arrangements are likely to be adversely affected.

Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Q4 Please provide any other comments about the proposed transition arrangements.

All businesses in tax loss with an active Growth Grant on 31 March 2019 can transition onto a temporary grant that mirrors the R&D Tax Incentive

As detailed in the discussion paper (page 23) on the R&D Tax Incentive the Government recognises that it is important to support businesses that are in tax loss or which have insufficient taxable income to use their tax credit.

The Government is committed to providing a better policy option to support these businesses. However, the policy issues are complex and will not be resolved in time for the introduction of the Tax Incentive in April 2019. An appropriate policy will be introduced from 1 April 2020.

In the interim the Government is considering implementing a temporary grant scheme from 1 April 2019 that mirrors the R&D Tax Incentive to provide support for Growth Grant recipients with insufficient tax liability to use a R&D tax credit immediately.

The grant would be on the same terms as the R&D Tax Incentive in that it would be at the same rate, use the same definition of R&D, and have the same eligibility requirements.

The grant would be administered by Callaghan Innovation, with the support of Inland Revenue to ensure alignment of eligible activity and expenditure.

The grant would provide support for R&D on a quarterly basis in the same way as the Growth Grant and would mean that recipient businesses would not have to seek alternative funding arrangements for the first year of the Tax Incentive.

Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

TIMELINE

Up to 31 March 2019	31 March 2019	31 March 2020	30 September 2020
Callaghan Innovation works with businesses to help them consider the options available	The Growth Grant scheme will be closed to new applicants and extensions to existing contracts	All Growth Grant contracts end	Final claims are made for eligible expenditure on R&D occurring from 1 April 2019 – 31 March 2020

SUBMISSIONS

This document details the proposed transitional approach. We are interested to hear your views on the questions in this document (collected together in Appendix 1)

A submission template will be available on the R&D Tax Incentive webpage: <http://www.mbie.govt.nz/info-services/science-innovation/rd-tax-incentive>

You can email your submission to: RDincentive@mbie.govt.nz

You can post your submission to:

R&D Tax Incentive Review Team
Ministry of Business Innovation and Employment
PO Box 1473
Wellington 6140
New Zealand

PLEASE SEND US YOUR SUBMISSION BY 5:00PM ON 1 JUNE 2018

If you would like to make a submission on the R&D Tax Incentive proposal, please use the R&D Tax Incentive submission form.

NEXT STEPS

Your views will help ensure the proposed approach supports the principles identified and will inform the final development of the transition plan.

After the consultation period closes, MBIE, Callaghan Innovation, Inland Revenue, and the Treasury will provide the Government with an implementation plan for transition, which will take into account your views. Once agreed, Callaghan Innovation will take the necessary actions to deliver the plan.

PERSONAL INFORMATION AND CONFIDENTIALITY

Your submission will be shared with officials from MBIE, Callaghan Innovation, Inland Revenue and the Treasury. Any personal information in your submission will be held in accordance with the Privacy Act 1993. MBIE may publish the submissions and provide a summary on the website www.mbie.govt.nz. Please let us know if you do not want your name to be included in any submissions or summary of submissions that MBIE may publish. We will not publish your contact details (e.g. email address, phone number or postal address).

MBIE may be asked to release submissions under the Official Information Act 1982. This Act has provisions to protect sensitive information given in confidence but MBIE can't guarantee the information can be withheld. If you do not want any information contained in your submission to be released, you need to tell us which information in your submission you consider should be withheld and explain why. For example, you might want some information to remain confidential because it is commercially sensitive or personal.

APPENDIX 1: SUMMARY OF QUESTIONS

- Q1** What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.
- Q2** What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?
- Q3** What impact will the proposed transition arrangements have on your R&D programme over the next few years?
- Q4** Please provide any other comments about the proposed transition arrangements.
- Q5** For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

