



BRIEFING

R&D Tax Incentive: Extensions to Growth Grant contracts

Date:	14 August 2018	Priority:	High
Security classification:	In Confidence	Tracking number:	MBIE 0618 18-19 CI B-18-029

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods Minister of Research, Science and Innovation	<p>Agree to provide an extension until 31 March 2019 to Growth Grant contracts expiring before 1 April 2019</p> <p>Direct officials to work with companies that fail to satisfy the criteria for renewal to manage their transition to the R&D Tax Incentive on 1 April 2019</p> <p>Forward briefings to the Minister of Revenue</p>	16 August 2018

Contact for telephone discussion (if required)				
Name	Position	Telephone	s 9(2)(a)	1st contact
Richard Walley	Policy Director, Science, Innovation and International, Ministry of Business, Innovation and Employment	04 901 4134	[Redacted]	✓
Becci Whitton	Manager Stakeholder and Government Engagement, Callaghan Innovation		[Redacted]	

The following departments/agencies have been consulted
Inland Revenue, Treasury

Minister's office to complete:

- | | |
|---|--|
| <input type="checkbox"/> Approved | <input type="checkbox"/> Declined |
| <input type="checkbox"/> Noted | <input type="checkbox"/> Needs change |
| <input type="checkbox"/> Seen | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn |

Comment

Released consistent with the Official Information Act 1982

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Purpose

To obtain your agreement to extend Growth Grant recipients expiring before 31 March 2019 that fail to satisfy the current criteria for renewal.


Recommended action

The Ministry of Business, Innovation and Employment (MBIE) and Callaghan Innovation recommend that you:

	Min RS&I
a Agree to continue the existing contract-renewal process until 31 March 2019 and, for those companies who do not meet the criteria for a renewal, allow a contract extension to 31 March 2019	<i>Agree / Disagree</i>
b Direct Callaghan Innovation and MBIE to work with companies that fail to satisfy the criteria to manage their transition to the R&D Tax Incentive on 1 April 2019	<i>Agree / Disagree</i>
c Agree to forward this briefing and earlier briefing on Options to expedite transition of Growth Grant recipients (MBIE 3950 17-18) to Minister of Revenue	<i>Agree / Disagree</i>

Released consistent with the Official Information Act 1982

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

14 / 8 / 2018

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

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s 9(2)(a)



Becci Whitton
Manager, Stakeholder and Government
Engagement
Callaghan Innovation

14 / 8 / 2018

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Background

1. On 19 July 2018 you agreed to keep Growth Grants available to existing recipients until 31 March 2021 (MBIE 3950 17-18 refers). This provides a channel for Growth Grant recipients with insufficient tax liability to use their tax credits immediately (“firms in loss”) to continue receiving in-year payments through their Growth Grant until they are available through the R&D Tax Incentive (from 1 April 2021).
2. On 13 August 2018 we understand you agreed that there would be no restrictions on the availability or terms of Growth Grant contracts in the second year of the transition period from 1 April 2020 to 31 March 2021 (MBIE 0512 18-19 refers). Moreover, Growth Grant contracts that are active on 1 April 2019 will automatically be extended until 31 March 2021, regardless of whether the recipients satisfy the current criteria for renewal.
3. At the same time, you directed us to work proactively with all companies to help them to transition to the R&D Tax Incentive sooner, especially with the approximately 100 firms in profit that will not be affected by the absence of in-year refundability. Your expectation is that firms in profit will transition to the R&D Tax Incentive on or before 1 April 2020. You directed us to talk with firms in loss and advise them further on solutions on a case-by-case basis.
4. We also discussed granting extensions to existing recipients whose Growth Grants expire before the start of the R&D Tax Incentive on 1 April 2019 and that would fail to qualify for an extension under the current rules. You directed us to follow an option that was not among the alternatives listed on that briefing. This briefing seeks your confirmation of our understanding of that option.

Extension to expiring Growth Grant contracts

5. Under the current rules, to receive a Growth Grant extension a recipient must maintain or increase their eligible R&D expenditure over the two years of the grant period, as compared to the two years prior to the grant period, and maintain a R&D intensity of 1.5 percent or higher. Callaghan Innovation s 9(2)(g)(i) [REDACTED] will not satisfy the criteria under the current rules to requalify for the Growth Grant on 30 September 2018. Moreover, additional recipients may fail to requalify when their contracts expire between 31 December 2018 and 31 March 2019. This is because their R&D expenditure has reduced since their last review.
6. The justification for extending the contracts of these firms, even if they do not satisfy the criteria, is that without it they would face a six-month gap in any form of Government support until they are eligible for the R&D Tax Incentive. The reduction in support may cause them to reduce their R&D expenditure.
7. Based on the discussion at the meeting on 13 August, we understand that you wish to offer an extension until 31 March 2019 to firms that did not meet the criteria for a renewal. This means that both firms in profit and firms in loss that do not satisfy the criteria will receive only a six-month extension. Those companies would then have the opportunity to apply for the R&D Tax Incentive, which will come into effect on 1 April 2019. You also directed Callaghan Innovation and MBIE to work with companies that fail to satisfy the criteria to manage their transition to the R&D Tax Incentive.

Next steps

8. In the week following receipt of your decision on this and the earlier briefing (MBIE 0518 18-19), we will provide you with a revised Ministerial Direction that implements these changes.