#12

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Thursday, April 19, 2018 4:13:02 PM
Last Modified: Thursday, April 19, 2018 4:19:04 PM
Time Spent: 00:06:01
IP Address: s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals:

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations:

Name of organisation	**PLN Group**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **20 - 49**

Q5 (v) What industry sector does your business operate in? **C Manufacturing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**None**
R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Significant. This is where much of the invention comes from. It is only then that innovation (different applications of the invention) can occur. SME's generally can not afford invention

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

Unambiguous by definition through IAS.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

I do believe there should be a process to consider potentially non qualifying R&D as the landscape changes

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Respondent skipped this question

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

I can not see a good reason to impose that restriction.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	Respondent skipped this question
Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	Respondent skipped this question
Q21 Q15 Is the minimum threshold set at the right level?	Yes
Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.	Respondent skipped this question
Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.	Respondent skipped this question
Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.	Respondent skipped this question
Q25 Q19 Are there any other risks that need to be managed? Please describe.	Respondent skipped this question
Q26 Q20 Are there risks with extending penalties to external advisors in this way?	Respondent skipped this question
Q27 Q21 What is the right level of information required to support a claim?	Respondent skipped this question
Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?	Respondent skipped this question
Q29 Q23 What integrity measures do you think Inland Revenue should use?	Respondent skipped this question
Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?	Respondent skipped this question
Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.	Respondent skipped this question

#14

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, April 19, 2018 3:51:59 PM
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Time Spent:	00:43:15
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Smart-Builder Limited**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **10 - 19**

Q5 (v) What industry sector does your business operate in? **S Other services**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**None**
R&D Growth Grant	**None**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

I see little impact.

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

It's questionable whether the proposed definition would cover our R&D, despite the fact much of the software we develop is unique and provides functionality previously not available in the world.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

It may exclude software which solves existing business problems in more efficient or more scale-able ways

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Strictly speaking the scientific method does not necessarily apply to a lot of software. In many cases it is almost certain that it is possible to solve a problem with software, the question is more whether you can do it in a cost effective manner and whether the resulting solution is implemented well enough to provide significant benefits over either manual systems or the previous generation of software. Hence it is questionable whether the scientific method applies even when developing software which will deliver new benefits world-wide and has considerable development risk.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

I don't think any competent software developer back in 2004 would have been uncertain about whether Facebook could be created. The uncertainty was about whether it was worth doing - could it be done quickly and cheaply enough, at a sufficient level of quality to deliver enough benefits to people that it would catch on. I guess the question is, do you want to encourage software R&D of this sort?

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No opinion

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

No opinion

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Depends how you define dual purpose activities. I would suggest that a lot of software R&D is implemented in an environment which includes relationships to other software developed by the R&D company and in those cases invariably some work will be spent in maintaining those relationships. That work should not be claimable for R&D, but it would be extreme if the existence of that work invalidated the entire project from eligibility for R&D credits.

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

We are a software company, it isn't an issue for us.

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Either way it is a relatively minor item for us.

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

If the resulting product is fully owned by the NZ company performing the R&D then I question whether it should matter that they managed to also achieve partial funding from other sources? Aren't you penalizing them for trying to mitigate their risks?

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

I believe I have already covered this in detail in my other answers.

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

You have already covered the obvious issue for start-ups and the same argument can be applied (to a lesser degree) to any business.

Q21 Q15 Is the minimum threshold set at the right level?

Yes,
If 'no', please provide further details.:
Probably. It depends how much administration the scheme involves. If it is light then you could set it lower, if it is heavy then there is no point enrolling in the scheme for any smaller projects anyway. Hopefully you are trying to make it light!

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

No opinion.

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

No opinion.

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Seems reasonable.

Q25 Q19 Are there any other risks that need to be managed? Please describe.

No opinion.

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

I am fully on board with this, professional advisers should be liable.

Q27 Q21 What is the right level of information required to support a claim?

This is a tough one and is what will determine whether the scheme is useful for smaller businesses (eg 10-20 employees). If you make it too onerous then it won't be worth doing. I don't have the silver bullet unfortunately.
Certainly doing it online and using MyIR is a good starting point.

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

I will have to reserve judgement as it depends entirely on how good the software is.

Q29 Q23 What integrity measures do you think Inland Revenue should use?

No opinion.

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,
Contact details:
s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

s 9(2)(b)(ii) The resulting product would be world leading (ie no one else has a product which does this) but the effort involved means there is significant risk. It strikes me this is the sort of project the R&D credits scheme should encourage but I am very uncertain whether it would be eligible.

#58

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Monday, May 21, 2018 1:53:48 PM
Last Modified:	Monday, May 21, 2018 3:20:41 PM
Time Spent:	01:26:53
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Logility NZ**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **20 - 49**

Q5 (v) What industry sector does your business operate in? **M Professional, scientific, & technical**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2016, 2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **Yes,**
If yes, please specify names of grant(s)/support.:
R&D Experience Grant (Interns)

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Minimal. IF SOEs are not already using citizen dollars efficiently to do good research, adding more seems to be throwing good money after bad.

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

I think that R&D carried out in NZ by private companies rarely falls into proposed definition. The problem is one of intention.

As it stands, Core R&D activity is defined as activities using the "scientific method" to make new or improved "stuff" for the purpose of advancing science or technology - this is something a university would use. This is surely very narrow - private companies usually set out to do R&D because they want to make money.

Two examples:

A company like XERO SHOULD qualify for R&D Tax Credit under the working R&D. However, the service it created was not new - i was merely accounting software in the cloud, already available through the likes of MYOB and Intuit. It may be argued that XERO's service was an improvement over what was then available, but the intention of providing this improved offering (and doing the R&D to support it) was not to "Advance science or technology through the resolution of scientific or technological uncertainty" but rather to "capture a market that was ripe for technological disruption, create a lot of jobs, and make a ton money while doing so".

UBER can be similarly characterized - online taxi booking existed before UBER, but Uber revolutionized how it was done, while NOT having as a GOAL, the "resolution of scientific uncertainty", but "getting to $10B dollars ASAP".

Tech companies do R&D but not because they want to advance the state of the art - they just want to retire fast.

Conclusion : Please include R&D (whether software or otherwise), that delivers innovation / improvement to products and services intended to MAKE A PROFIT , rather than scientific advancement. Often, such innovation results in scientific or technological advancement as a side benefit.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Yes, see Q2. Intention is the key.

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Yes - the scientific method (induction, deduction, repeatability, big sample sizes, hypotheses generation and elimination, etc) is something academics in a university would do.

What happens in tech companies is often more unstructured but can lead to scientific advancement, nevertheless. An undergraduate with a bright idea, drive and guts can build a company that pushes the envelope in R&D on many fronts, but hardly using the scientific method. Think Google, Facebook, Netflix, etc.

This is something the NZ government needs to support.

IN short, the definition of R&D needs to INCLUDE how R&D is done in the startup world.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Q6 seems to be missing from this link:
https://www.research.net/r/submission-RD-incentive

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Holding or Shell companies should be prevented from receiving R&D Tax Credits

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Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Its easy to account for, but doesn't capture the true cost of R&D, which often has equipment or software costs

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Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Including overheads more accurately captures the cost of doing R&D but is harder to account for, esp. asset depreciation

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Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

See Q 4

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

Q21 Q15 Is the minimum threshold set at the right level?

Yes

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Audacious R&D goals (e.g., Self Assembling Low Cost Dwellings) come with extravagant risks matched to gigantic costs. It is important to support these ambitious goals to encourage researchers in NZ to Dream Big and Change The World and one way to do so is to support Large Crazy Projects. At this scale, the government should be able to get expert assessment of the feasibility of the project before approving cap extensions.

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

It would probably make sense to do some analysis on past Growth Grants to assess what R&D contribution was actually made.

Q25 Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

Q27 Q21 What is the right level of information required to support a claim?

Respondent skipped this question

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

Q29 Q23 What integrity measures do you think Inland Revenue should use?

Regular Random Spot Checks to verify "real" R&D activity

Require annual R&D reports for all recipients above a certain amount (e.g. > $100K per year)

Fines or clawback for fraud

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

#61

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Tuesday, May 22, 2018 10:15:44 AM
Last Modified:	Tuesday, May 22, 2018 1:35:35 PM
Time Spent:	03:19:51
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: — **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Syft Technologies Limited**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. — **50 - 99**

Q5 (v) What industry sector does your business operate in? — **M Professional, scientific, & technical**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2015, 2016, 2017**

Q7 (vii) Has your organisation ever received any other R&D government support? — **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand? — **Respondent skipped this question**

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

Respondent skipped this question

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

It is natural for your business to organically move to be more development focused as you grow. For example, where our machine currently performs as it should we are always researching ways in which the machine can be more efficient or push the boundaries of innovation. This generally relates to enhancements rather than fixing a scientific issue to the machine. In the technology space continued enhancements and development is required to retain customers and continue to be world leading in your space in which you operate in. An inability to receive funding for this would remove almost all of our development department, resulting in less spend and less jobs available.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

Respondent skipped this question

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

A third of our business' R&D expenses relate to costs associated with development parts and overhead costs. As it stands we have set out a three year plan for R&D and the projects that need to be under taken, and this involves investment in a number of parts. Removing an incentive associated with funding this cost of R&D would result in the scaling back of projects and reduce the labour requirement. This would therefore result in less hire's and money spent on labour hours. It should also be noted that we employ approx 30 interns a year who's primary focus is on R&D projects, not having funding for this would result in a reduction in the employment of interns.

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

Q21 Q15 Is the minimum threshold set at the right level?

Respondent skipped this question

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

Respondent skipped this question

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Respondent skipped this question

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

Q25 Q19 Are there any other risks that need to be managed? Please describe.

Currently the government grants provide a greater percentage of support as well as quarterly payments. This level and timing of cash flow is critical to our business being able to continue to fund R&D projects. By have an annual incentive that does not result in cash flow to the business, particularly those in a tax loss position, does not provide any benefit or incentive to increase spend on R&D, resulting in a reduction rather than the intended increase on R&D spend by NZ companies.

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

Q27 Q21 What is the right level of information required to support a claim?

Respondent skipped this question

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Respondent skipped this question

Q29 Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?	**Yes,** Contact details: s 9(2)(a)
Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.	**Respondent skipped this question**

#62

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Tuesday, May 22, 2018 4:23:13 PM
Last Modified:	Tuesday, May 22, 2018 4:46:25 PM
Time Spent:	00:23:11
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Foot Science International Ltd**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **10 - 19**

Q5 (v) What industry sector does your business operate in? **C Manufacturing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand? **Respondent skipped this question**

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

The use of the phrase scientific method in the definition suggests a focus on 'pure' academic research and suggests the preclusion of applied scientific or engineering activities such as engineering design activities, application of new technologies such as automation and product development. As such a term with broader applicability would be preferred.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

See examples given in response to Q2

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

I believe that this would limit R&D spend in a number of businesses where implementation of technology that is new to that business but not necessarily new to world. My view is that R&D should be viewed as the development or implementation of new technology into an organisation - for example implementation of automation/robotics may not be new to world but it represents considerable technical stretch for many organisations.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

During the recent MaD conference panel discussion, one of the key observations from key industry representatives such as Fisher and Paykel Healthcare and Bobux was that user- or customer-centric development processes were critical to the commercial success of innovation and product development initiatives. Based on this and my own experience in product development, it would seem that the exclusions around market research and user-insight work using tools such as design thinking (promoted by agencies such as Callaghan Innovation) should be reviewed and this type of activity should be seen as key to successful and targeted R&D spend.

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	**Respondent skipped this question**
Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	**Respondent skipped this question**
Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	**Respondent skipped this question**
Q21 Q15 Is the minimum threshold set at the right level?	**Yes**
Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.	**Respondent skipped this question**
Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.	**Respondent skipped this question**
Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.	**Respondent skipped this question**
Q25 Q19 Are there any other risks that need to be managed? Please describe.	**Respondent skipped this question**
Q26 Q20 Are there risks with extending penalties to external advisors in this way?	**Respondent skipped this question**
Q27 Q21 What is the right level of information required to support a claim?	**Respondent skipped this question**
Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?	**Respondent skipped this question**
Q29 Q23 What integrity measures do you think Inland Revenue should use?	**Respondent skipped this question**
Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?	**Yes,** Contact details: s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

#65

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, May 23, 2018 3:57:53 PM
Last Modified: Wednesday, May 23, 2018 5:37:19 PM
Time Spent: 01:39:25
IP Address: s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**TracMap**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **20 - 49**

Q5 (v) What industry sector does your business operate in? **Respondent skipped this question**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2012, 2013**
R&D Growth Grant	**2014, 2015, 2016, 2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **Yes,**
If yes, please specify names of grant(s)/support.:
R&D Experience Grant (Intern Support) R&D Career Grant

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

Respondent skipped this question

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

The creation of innovative world leading software is on the verges of the definition, and is not well catered for in the definition. Software Development is going to be a critical revenue source for NZ Inc. so this should be specifically considered.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

As above -

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Scientific Methods - Do modern Software Development techniques come under this, such as Agile Development? The long "waterfall" development schedules are a thing of the past.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

This would make it very difficult for any company to qualify. ie. Would the innovation of a Baby Incubator that runs on Solar Power be a material advancement in both science or technology. The combination of known technologies into a new product that is ground breaking may not even qualify. This is a very high hurdle, and in my view would discourage most companies from research and development advancement.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

There is significant risk that if not enough market validation / customer insight work is completed to validate the problem and the market need / the R&D will not deliver what the markets need, and hence any incentive to will be wasted.

We undertake extensive work prior to starting the development process, and this normally significantly modifies the approach to tackle the issues our customers are facing. It is one of the most important elements of the R&D Process. To exclude from the incentive this does not make sense, as it should infact be encouraged (as long as clear boundaries are defined as to what is in, and exclude normal BAU visits).

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Having difficulty in understanding what is likely to be covered here. Dual Purpose (ie overheads such as a building that house both the development team, as well as a sales team?) If so, I don't think Dual Purpose should be excluded, rather apportioned to the relevant areas in a clear manner that can be audited if needed.

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Disadvantages are significant to limit to only direct labour costs. The cost to run an intensive R&D Organisation is significant, and to not cover the overheads limits the chance a company will increase investment significantly. Benefits - it is easier

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Advantage - it more accurately reflects the costs of R&D.
Disadvantage - It takes a little bit more to calculate. Option could be to allow it, as long as there is suitable backed up evidence as to the apportionment, or there is a set % agreed (30%) on Direct Labour costs to take account of overheads.

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

No - If receiving compensation for developing that directly, should not be eligable

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

As noted above - scientific approach is not applicable - should be generally accepted software development techniques

Also the material advancement of science does not fit.

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

In start up's etc, there is generally a lot of investment prior to revenue. These are also funded with early stage investors, hence continuity rules can easily be broken. It is this business that should be encouraged, and investment encouraged, as these new companies are the ones that provide the greatest opportunity for NZ to grow significantly.

Q21 Q15 Is the minimum threshold set at the right level?

No,
If 'no', please provide further details.:
Again, a lot of new companies will fall outside this criteria.

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

We want to keep performing high R&D businesses in NZ, and encourage them to keep investing. As long as it is accountable, then I would question the cap. Bigger issue will be overall ownership- If the benefits of the incentive are taken by offshore interests - then I would question that.

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

It would be targeted, and research would be done to counter corporate structures that will not benefit NZ Inc.

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

I feel that this information is sensitive for a number of companies, and don't see the benefit of this level of disclosure.

Q25 Q19 Are there any other risks that need to be managed? Please describe.

As above.

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

Respondent skipped this question

Q27 Q21 What is the right level of information required to support a claim?

It does need to have adequate paperwork / disclosure, as any other expense claim. However, if there were tools / templates online to assist in the capture of the correct information, it would make compliance easier, and also make smaller companies more likely to claim.

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

That would be great if it could be done. Anything to streamline the process.

Q29 Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,

Contact details:

s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

I am concerned about the impact on our business given we are focused on R&D, are growing rapidly, and are currently receiving a Growth Grant. We have just approved the decision to grow the development team by a further 6, on the assumption of continuing Growth Grant support. This could have a significant impact on us, and may limit further growth until this is bedded down.

#66

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Wednesday, May 23, 2018 9:16:18 PM
Last Modified:	Wednesday, May 23, 2018 10:48:19 PM
Time Spent:	01:32:00
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Comrad Medical Systems**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **20 - 49**

Q5 (v) What industry sector does your business operate in? **J Information media &**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2015, 2016, 2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **Yes,**
If yes, please specify names of grant(s)/support.:
R&D student grants

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

N/A for our business

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

Better suited than referencing an accounting standard and excluding development capitalised under that standard (as is the case for &RD Growth Grant).

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

None that comes to mind

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

Many advances and improvements will be made applying new technologies, across all sectors. Need to apply lessons learnt from other countries, such as Australia where the mining sector saw significant benefits applying the supporting activities definition (which far exceeded core activities) - the focus should be on cost incurred on core activities.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

The R&D incentive should apply to those companies who take existing technology and apply it to new sectors; for example, the health sectors needs advancement in technology, not just for treating health problems but also integrations that will allow seamless access and transition of patient medical records - would this critical work pass the materiality test?

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

As per Q4 above, exclusions should apply to both.

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

N/A

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Depending on the final definitions, which would need to be very well defined, this could impact technology R&D which does not follow the traditional R&D process for widgets; the usual practice for technology (software) companies is to continually update, release, gather feedback, refine and release (etc), is this dual purpose?

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Obvious advantage is the benefit to the labour market, not doubt a focal point for the current government.

Disadvantage is the cost of technology (software and hardware) that will not doubt be paramount in many future R&D activities

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Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Overhead allocations is an onerous, often time consuming admin task which arguably adds little value; needs to be kept simple to understand and apply consistently and limit the overhead to administer

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Consideration can be minimal compared to the R&D cost. A blanket ineligibility seems unreasonable.

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Fully agree with comments in the discussion paper. Software required to complete R&D activities will also be required once products are released to market so need to ensure they are not excluded under dual purpose or other specific exclusion activities.

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Appears consistent with existing tax legislation.

Q21 Q15 Is the minimum threshold set at the right level?

Yes,
If 'no', please provide further details.:
Could be higher, perhaps $200,000

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

N/A

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

N/A

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Transparency is always important.

Q25 Q19 Are there any other risks that need to be managed? Please describe.

A two year lag is too short; R&D often has longer lead times.

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

N/A

Q27 Q21 What is the right level of information required to support a claim?

The resources and assistance from Callaghan, that has supported the R&D grants has been beneficial; how can they continue to provide this support without the timely information provided via the grant claims?

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

Needs to be online, simple and easy to understand; similar to R&D grant claims

Q29 Q23 What integrity measures do you think Inland Revenue should use?

A cost of the tax incentive will be IRD staff to audit claims; the best, perhaps only way to maintain integrity

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,
Contact details:
s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Technology and therefore software continues play a bigger and bigger role in business, including R&D. Needs to ensure it is appropriately considered and reflected in the tax incentive and does not fall back on traditional (old .....) R&D activities that may include prototypes etc etc

#12

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Sunday, May 27, 2018 9:26:10 PM
Last Modified:	Sunday, May 27, 2018 9:47:45 PM
Time Spent:	00:21:35
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Comrad Medical Systems**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **20 – 49**

Q5 (v) What industry sector does your business operate in? — **Information media &**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2014**

Q7 (vii) Has your organisation ever received any other R&D government support? — **Yes,**
If yes, please specify names of grant(s)/support.:
R&D student grants

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Cash flows will be effected; the grant better aligns to the time the R&D expense is incurred.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

A min period of two years for businesses to prepare and implement any required changes.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

s 9(2)(b)(ii)

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Many companies will make losses whilst undertaking R&D, deferring even further any benefits received from the tax incentive. It is hard to see how a tax incentive will be better and increase R&D spend when compared to grants.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Any benefit during the transition period will assist prepare for the change. The benefit will be limited for such a short period.

#69

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 24, 2018 10:56:16 AM
Last Modified:	Thursday, May 24, 2018 12:18:04 PM
Time Spent:	01:21:48
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals:

Name	**Kirsteen Pitkin-Douglas**
Email address	s 9(2)(a)

Q2 (ii) For organisations: **Respondent skipped this question**

Q3 (iii) How long has your business been operating in New Zealand? **Respondent skipped this question**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **Respondent skipped this question**

Q5 (v) What industry sector does your business operate in? **Respondent skipped this question**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant? **Respondent skipped this question**

Q7 (vii) Has your organisation ever received any other R&D government support? **Respondent skipped this question**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

It will potentially not uplift R&D expenditure as much as would be possible if they were not excluded. The R&D definition as it stands would be more applicable to Tertiary Institutions rather than purely business in my opinion.

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

I consider the definition to be clear and robust for administrative purposes. Page 15 states "... the intention of the scheme is to give incentives for activities which resolve scientific or technological uncertainty" and that is more academically focussed than business focussed in my opinion. I would imagine that businesses, not Universities etc., generally want to make a product/service that they can sell with a competitive advantage.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

No, I would prefer it to be tighter for administration purposes.

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

No it does not.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

It would make it harder but it is in line with the overall intention and so I support having a materiality test for both problem and advancement.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

No

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

It could potentially link into software development etc. but I have no specific examples.

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

If the activity would be done anyway then it is fair that it is not eligible. If, however, additional components occur over and above what would have occurred regardless then I think it should be eligible.

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Advantages - I consider that it would be easier to administrate and supply information on for the customer (perhaps even automatically re PAYE info?) as long as a sweet spot was found regarding the credit rate. Would there still be a threshold? What about people who are shareholders and pay themselves dividends? They would have to alter their structure in order to take advantage of the credit?

Disadvantages -

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

This idea would be easier to administer but one size does not fit all and would it lead to bias re capital investment? I do not know enough to comment but my view is if a company wants to do something then it will do it regardless of a potential tax credit.

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Unless the commercial consideration does not cover the true cost of the R&D. In that the R&D cost more than what was received and this has led the company to be out of pocket. Of course, you could argue that was just a bad business decision and why should the NZ taxpayer pay for their error.

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

Respondent skipped this question

Q21 Q15 Is the minimum threshold set at the right level?

No,
If 'no', please provide further details.:
I believe it should be lower to allow more companies to access the incentive. There may be not be one full time employee but eligible R&D is still being performed and these are the companies that need most help.

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

I consider a cap and a mechanism to go beyond the cap in extraordinary circumstances is very sensible. It protects the exposure of the NZ taxpayer.

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

The cap is high enough to provide certainty. If a company plans to exceed this for some extraordinary reason then the NZ Government should potentially be involved anyway to smooth the course that allows the public interest to be promoted. Conversations early produce more productive relationships, clarity for both sides and to hopefully prevent costly disputes.

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

I think it would be valuable to include the industry the company is from and some sort of stats overview.

Q25 Q19 Are there any other risks that need to be managed? Please describe.

Companies may not wish to be named in case of bad publicity.

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

It may make the actual taxpayer take less care but I doubt it.

Q27 Q21 What is the right level of information required to support a claim?

Information that the company should be expected to have anyway - what they are aiming to do, research on the current situation if they are claiming novelty when they start the research etc. Reasonable due diligence as would be done before any project is initiated and if major changes in direction are made then why.

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

It would have to be trusted and validated by IR.

Q29 Q23 What integrity measures do you think Inland Revenue should use?

A scoring system based on risk. Those with lower scores will be looked at more closely etc.

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

No

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

Respondent skipped this question

#72

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Friday, May 25, 2018 9:26:18 AM
Last Modified: Friday, May 25, 2018 9:41:59 AM
Time Spent: 00:15:41
IP Address: s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals: **Respondent skipped this question**

Q2 (ii) For organisations:

Name of organisation	**Auror Limited**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? **2 to less than 6 years**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **10 - 19**

Q5 (v) What industry sector does your business operate in? **S Other services**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2015, 2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand? **Respondent skipped this question**

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

More guidance on how this would apply to software development is needed. Software is one of the fastest growing sectors in NZ and development can be iterative and may fall outside the usual scientific definition of R&D.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

Respondent skipped this question

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

I am unsure how it would impact on software development. as above.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

An advancement of science of technology is very difficult to quantify. Many times, problems are solved using technology that has previously been applied to another use case or industry. This may preclude novel uses of old/current technology to solve new problems.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

Respondent skipped this question

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

Respondent skipped this question

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Respondent skipped this question

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

Respondent skipped this question

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Respondent skipped this question

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

Respondent skipped this question

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

Respondent skipped this question

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	**Respondent skipped this question**
Q21 Q15 Is the minimum threshold set at the right level?	**Respondent skipped this question**
Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.	**Respondent skipped this question**
Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.	**Respondent skipped this question**
Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.	**Respondent skipped this question**
Q25 Q19 Are there any other risks that need to be managed? Please describe.	**Respondent skipped this question**
Q26 Q20 Are there risks with extending penalties to external advisors in this way?	**Respondent skipped this question**
Q27 Q21 What is the right level of information required to support a claim?	**Respondent skipped this question**
Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?	**Respondent skipped this question**
Q29 Q23 What integrity measures do you think Inland Revenue should use?	**Respondent skipped this question**
Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?	**Yes,** Contact details: s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

The 12.5% pales in comparison to what is offered in Australia (43%+). As a fast growing NZ software company, this has a significant impact on future decisions about where we should be based (considering NZ is a small market for most companies, keeping R&D in NZ is imperative for the NZ economy). We have previously been asked to consider having our R&D and operations based in Australia, which we declined as we had sufficient support from the government, Callaghan, and R&D. However, with these changes, it may affect our future decisions on this.
Receiving cash back from R&D spend (or co-funding) has been very helpful in helping us grow and it is a shame to see this change and reduce.

This impacts NZ's ability to attract top talent and keep R&D in NZ.

#36

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 31, 2018 11:00:52 PM
Last Modified:	Thursday, May 31, 2018 11:13:32 PM
Time Spent:	00:12:40
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals:

Name	**Grant Dumbell**
Email address	s 9(2)(a)

Q2 (ii) For organisations: **Respondent skipped this question**

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners. **1 - 5**

Q5 (v) What industry sector does your business operate in? **M Professional, scientific, & technical**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**None**
R&D Growth Grant	**None**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand? **Respondent skipped this question**

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?	**Respondent skipped this question**
Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?	**Respondent skipped this question**
Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?	**Respondent skipped this question**
Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?	**Respondent skipped this question**
Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.	**Respondent skipped this question**
Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?	**Respondent skipped this question**
Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.	**Respondent skipped this question**
Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.	**Respondent skipped this question**
Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.	**Respondent skipped this question**
Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.	**Respondent skipped this question**
Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?	**Respondent skipped this question**
Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.	**Respondent skipped this question**

Q21 Q15 Is the minimum threshold set at the right level?	**No,** If 'no', please provide further details.: Setting such a high level is a disincentive for small business to invest in R&D yet this is potentially where the greatest benefits lie in terms of job growth and value creation. A tax break for R&D spend over $100k is corporate welfare for big companies at the expense of small companies. Annual spend threshold should be much lower eg one tenth of proposed threshold
Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.	**Respondent skipped this question**
Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.	**Respondent skipped this question**
Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.	**Respondent skipped this question**
Q25 Q19 Are there any other risks that need to be managed? Please describe.	**Respondent skipped this question**
Q26 Q20 Are there risks with extending penalties to external advisors in this way?	**Respondent skipped this question**
Q27 Q21 What is the right level of information required to support a claim?	**Respondent skipped this question**
Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?	**Respondent skipped this question**
Q29 Q23 What integrity measures do you think Inland Revenue should use?	**Respondent skipped this question**
Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?	**Yes,** Contact details: s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

This form is too restrictive to gather true consultation feedback as it is overly directed with a Q&A format. It doesn't ask about the advantages of retaining grants for small businesses who are doing R&D but whose spend cannot be over the threshold.

#38

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, June 01, 2018 6:50:51 AM
Last Modified:	Friday, June 01, 2018 7:49:24 AM
Time Spent:	00:58:32
IP Address:	s 9(2)(a)

Page 2: Your contact details

Q1 (i) For individuals:

Name	s 9(2)(a)
Email address	s 9(2)(a)

Q2 (ii) For organisations:

Name of organisation	**YourQS Ltd**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand?

Less than 2 years

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand?Please include full-time and part-time employees but do not include contractors or the business owners.

1 - 5

Q5 (v) What industry sector does your business operate in?

E Construction

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**None**
R&D Growth Grant	**None**

Q7 (vii) Has your organisation ever received any other R&D government support?

Yes,
If yes, please specify names of grant(s)/support.:
Student Experience Grant

Page 3: Questions asked in the discussion document

Q8 Q1 If SOEs, Crown Research Institutes, District Health Boards, Tertiary Institutions, and their subsidiaries are excluded from the R&D tax incentive, what will the likely impact be on business R&D in New Zealand?

I agree with this. Most of them are government funded organisations so ins't this just shuffling money around in a less transparent way? Surely if the government wants them to conduct R & D it could require or fund this in a more direct way.

As SOE's are arm's length and operate commercially, they could be considered differently, but again, as Government has a more direct input into them when compared to most businesses, sure R & D could be addressed more directly. I.e. put it into their mandate, rebate them on the dividends that they pay to Govt. rather than mix them in with the rest of business.

Q9 Q2 How well does this definition apply to business R&D carried out in New Zealand?

From past experience, the definitions seem to exclude the development part of R & D. I have found it difficult it the past to ensure that research activity qualify for funding.

It seems particularly hard with the Frascati model for software. If you are creating completely new software platforms, languages, or the like, then I'm sure it works, but 99% of software income is derived from creating new applications using largely existing technologies. Often these require a significant amount of innovation, a lot of research into how the software needs to function to achieve the required outcome, trial and error with users to see if it does, all of which to me is research but it is likely that if this just resulted in a software application, that it wouldn't meet the Frascati definition of research.

Q10 Q3 Does this definition exclude R&D that you think should be eligible, please illustrate with examples?

We know our software is unique, we spent 15 years with our prior business creating it and it performs a function that no other software does internationally, but it has always been a challenge to word grant applications so that they comply with the R & D criteria. The more complete the product became, the harder it was, as the close we got to development even though it still pre-commercial technology. We eventually gave up on trying to get funding help and ultimately had to wind the business up as we couldn't sustain it.

Q11 Q4 Does the scientific method requirement exclude valid R&D in some sectors, please illustrate with examples?

I'm comfortable with this staying for the work that we have done. It helps differentiate between business as usual development and research based development.

Q12 Q5 What would the impact be on business R&D in New Zealand if a materiality test was applied to both the problem the R&D seeks to resolve and the intended advancement of science or technology?

I think that this would help. The problem we would like to solve is improving information flow through the construction process, something which, if successful, would materially impact on the cost of finished housing. We have been at it for 15 years and follow what is happening globally in this space and know that our work is leading edge, but struggle to get R&D funding for it.

It is clear that achieving cost reductions in housing is of value to NZ society and housing currently but this doesn't have any weight in the assessment. Possibly taking into account the potential outcomes could allow an application allow more development than say something that has a less valued result.

Q13 Q7 Are there any reasons why the exclusions should not apply to support as well as core activities? Please describe.

There could be some argument that patenting costs could be included in some way. It is expensive to do, but can create greater value from the research if successful.

Q14 Q8 Please provide any examples where social science research is/has been a core part of business R&D in New Zealand?

No, I've not had any exposure to this area.

Q15 Q9 What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive? Please describe.

Makes sense to me.

Q16 Q10 What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour costs? Please describe.

This wouldn't impact us much as with software, it is pretty much all labour.

Q17 Q11 What are the advantages and/or disadvantages of setting overhead costs as a percentage of R&D labour costs? Please describe.

Makes it simple and consistent to apply and administer, I'd support it.

It may not reflect the actual situation for any business (be too high or too low).

Q18 Q12 Are there any reasons why expenditure related to R&D activities for which commercial consideration is received should be eligible for a tax incentive? Please describe.

The proposed criteria seem okay to me.

Q19 Q13 What variations or extensions to the definition of core activities are required to ensure it adequately captures R&D software activities?

I think that the software definition does need looking at. The software industry has to be a significant focus for NZ and, as mentioned previously, it is difficult to comply with the current R & D criteria for much of it.

Q20 Q14 Are there reasons why continuity rules should not apply to tax credits? Please describe.

With fast growing start-up type businesses this could be a constraint for them. Possibly apply some sort of minimum continuous ownership requirement.

Q21 Q15 Is the minimum threshold set at the right level?

No,
If 'no', please provide further details.:
It is too high. If the target is an R & D spend of 2% then it means that the target businesses are $5m turnover, which rules out the majority of NZ businesses. It also means that it will be difficult for many start-ups to qualify for anything. The target should be closer to $50,000 than $100,000. $50,000 would ensure that the magnitude of research is material but still be an achievable spend for most businesses. Even 50% of one full time employee is a significant commitment for a small company to a task that earns no immediate income, and may never do so (the risk of research).

Q22 Q16 How important is a cap or a mechanism to go beyond the cap? Please provide further details.

It stops larger companies emptying the pool for smaller ones. Companies with that sort of spend, must have a greater ability to fund their own R & D.

Q23 Q17 What features of a Ministerial discretion or pre-registration would make them most effective? Please describe.

Preregistration would be important. Last time we did get the R&D tax refund but it was stressful. We had to spend the money first, which put the business into a loss, then fight to get our software accepted as R & D. We got it eventually but if we hadn't we may have gone under, but would have certainly had to lay off staff.

From this experience we would have probably not been as aggressive in future years, only doing the R & D that we could afford to do with out the rebate and the rebate would have been a bonus that could have be used for the next year. I think that some form of pre-approval would encourage more R & D.

Q24 Q18 What are your views on the proposed mechanisms to promote transparency and enhance evaluation? Please describe.

Respondent skipped this question

Q25 Q19 Are there any other risks that need to be managed? Please describe.

Respondent skipped this question

Q26 Q20 Are there risks with extending penalties to external advisors in this way?

Seems okay, would discourage advisers padding claims to cover their costs.

Q27 Q21 What is the right level of information required to support a claim?

You must be able to establish the research hypothesis and then demonstrate a scientific process to explore this.

Q28 Q22 What opportunities are there for customers to submit R&D Tax Incentive claims via third party software?

No experience but does sound like it would have productivity advantages.

Should ensure that the option is there to not use third party software (it could be an additional cost for us as we have internal systems to capture all of the information needed but wouldn't warrant us building an interface to IRD to automate it).

Q29 Q23 What integrity measures do you think Inland Revenue should use?

Respondent skipped this question

Q30 Q24 Would you be willing to be contacted in future on the R&D tax incentive and/or implementation process?

Yes,
Contact details:
s 9(2)(a)

Q31 Q25 Please provide any other feedback you may have on the proposed R&D tax incentive here.

The rate of 12.5% seems low, it was 15% last time. Is this really going provide the level of incentive, and therefore R & D growth to achieve the policy targets?.

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New Zealand

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1 June 2018

R&D Tax Incentive Team
Ministry of Business, Innovation & Employment
PO Box 1473
WELLINGTON 6140

RDincentive@MBIE.govt.nz

Dear Sir / Madam

FUELLING INNOVATION TO TRANSFORM OUR ECONOMY: A DISCUSSION PAPER ON A RESEARCH & DEVELOPMENT TAX INCENTIVE FOR NEW ZEALAND

Building Research Association of New Zealand Incorporated ("BRANZ Inc.") is writing to provide comments on the discussion paper *Fuelling Innovation to Transform our Economy: A discussion paper on a Research & Development Tax Incentive for New Zealand* ("the discussion paper").

BRANZ Inc. welcomes the opportunity to submit on the proposed R&D tax incentive. In particular, we wish to comment on aspects of the proposals that we believe require refinement to ensure the policy objectives are achieved.

ABOUT BRANZ INC.

BRANZ Inc. began in the 1950s as the Building Research Bureau, an industry-owned information service. The Building Research Levy Act was introduced in 1969 and the Bureau gifted its assets to BRANZ Inc., which began working as an industry partner with the Government and received the applicable levy under the Building Research Levy Act 1969.

Under section 8 of the Building Research Levy Act, BRANZ Inc. is required to apply the Levy, and any other money received from any other source, to undertake research for the benefit of the building industry:

> **Expenditure of levies**
>
> (1) The money received by the association from levies imposed under this Act or from any other source shall be used by the association for the purposes of promoting and conducting research and other scientific work in connection with the building construction industry.

In 2002, BRANZ Limited was created as a wholly owned subsidiary of BRANZ Inc. to partake in independent and impartial research, testing and consulting for the building and construction industry. BRANZ Limited's two main areas of activity are to carry out industry-good research and knowledge dissemination, and to conduct consultancy services.

BRANZ Inc. now acts as an investor in industry research, along with being the steward of the Building Research Levy to ensure the industry obtains the greatest benefit possible from Levy investment.

BRANZ Inc. holds all intellectual property developed. It enjoys an income tax exemption under section CW 49 of the Income Tax Act 2007 ("the Act"), as it is a body promoting scientific or industrial research. BRANZ Inc. contracts out the development of IP to BRANZ Limited and consequently, the costs of development sit with BRANZ Limited (while BRANZ Inc. holds ownership of the intellectual property developed).

BRANZ Inc., through BRANZ Limited, is currently directing R&D in four programmes of work. These programmes will develop end-to-end solutions for some of the most pressing issues currently facing the building industry to help provide better buildings for New Zealanders. The four programmes are:

- Medium density housing that meets the needs of New Zealanders;
- Exceeding the minimum building standards for any building;
- Eliminating quality issues; and
- Warmer, drier and healthier buildings.

BRANZ Inc. and BRANZ Limited employ approximately 100 specialist staff, located in Wellington on a site which covers five hectares and contains laboratories and testing facilities to meet national and international standards.
Ultimately the costs of the R&D undertaken by BRANZ Limited on behalf of BRANZ Inc. is borne by the building industry through the Levy. The benefit of the R&D is enjoyed by the building industry, and indirectly by New Zealanders as a result of better buildings. Structured appropriately, the R&D Tax Incentive therefore has the potential to increase the amount of R&D activity being undertaken in New Zealand in relation to the building industry. This also supports the Government's wider housing policy objectives for better homes and, related to that, better social outcomes.

SUBMISSION

Industry Research Cooperatives

The discussion paper indicates that:

> **Industry research cooperatives undertaking or commissioning R&D will be eligible**
>
> Industry research cooperatives (including levy bodies) that receive contributions or levy payments for the purpose of R&D will be eligible for the Tax Incentive. R&D funded through levy bodies is fundamentally business R&D and may result in benefits that are not fully captured by the industry. Industry research cooperatives will need to show that they meet all the requirements to claim the credit, except the requirement to be a business.

Who should obtain the R&D Tax Credit?

There are potentially two ways in which the building industry could obtain R&D Tax Credits.

1. Industry participants making the Levy payments could be allowed an R&D Tax Credit in relation to the Levy. The Levy effectively being a payment to BRANZ Inc. to undertake R&D on behalf of the industry participant; or

2. BRANZ could claim the R&D Tax Credit in relation to its R&D expenditure.

The discussion paper comment above suggests that the latter is the proposed approach.

BRANZ is in favour of this approach as it will ensure more funding is available for industry research. The proposed approach reflects that the Levy is a statutory amount where an R&D Tax Credit to an industry participant would not necessarily lead to increase R&D spending.

Is BRANZ Inc. an Industry Research Cooperative?

BRANZ Inc. would appear to meet the definition of an "Industry Research Cooperative" but would like any uncertainty in relation to this to be clarified.

Eligibility criteria

The discussion document lists a number of eligibility criteria, including that the business[1] making the claim "*effectively owns the results of the R&D*".

BRANZ Limited undertakes R&D activities under an arrangement with its shareholder, BRANZ Inc. The resulting intellectual property is owned by BRANZ Inc. Therefore, as currently proposed, the R&D tax credit regime would not apply to either entity as BRANZ Limited does not own the resulting IP and BRANZ Inc. is not in a tax paying position.

This issue could be addressed in a couple of ways: either allowing BRANZ Limited to benefit from the R&D tax credit or allowing non-tax paying entities such as BRANZ Inc. to receive a refundable credit.

The former option could be achieved if the design of the regime enabled the R&D tax credit to be claimable without any double dipping. As long as the IP and R&D expenditure all sit within the same wholly-owned group this would allow flexibility and alignment of the regime with commercial practice.

If the intent of the R&D incentive is to increase R&D spend in New Zealand, it should not matter if, for commercial reasons, the R&D activities and ownership of IP are separated. This is provided that the IP is also owned in New Zealand. It similarly should not matter that BRANZ Limited is owned by an entity that is exempt from tax under section CW 49 of the Act, given that BRANZ Limited itself is taxpayer. BRANZ Limited would have additional funds available for R&D as a consequence of the R&D tax credit.

Eligible expenditure on R&D

The discussion document states that "*the credit will apply only to expenditure that is deductible, or amortisable, under the Income Tax Act (or, in relation to those with tax-exempt income that would be deductible or amortisable, if the income were not exempt).*"

As mentioned above, BRANZ Inc. is exempt from tax under section CW 49 of the Act. Further, BRANZ Limited receives funding from MBIE for the National Science

[1] Noting the comment above that "industry research cooperatives" would not need to meet the requirement to be a business

Challenge. This income is also treated as exempt income under the Act, with associated expenditure in relation to this income being treated as non-deductible under section DF 1 of the Act.

The wording of the discussion paper suggests that this should not be an issue for BRANZ Inc. or BRANZ Limited, as in both cases the relevant expenditure would be deductible if the income were not exempt. However, this should be clarified when the rules are drafted.

Commercial consideration

The discussion document proposes to exclude expenditure that relates to R&D activities for which the entity conducting the activity has received or could reasonably be expected to receive consideration.

We understand that the intent of this limitation is to ensure that the entity claiming the credit bears the financial risk of the R&D. However as currently worded it could be read far more broadly to restrict what would otherwise be eligible expenditure. For example, where that expenditure is funded from a Levy, in the case of BRANZ Inc., or by BRANZ Inc. in the case of BRANZ Limited.

More broadly, we do not believe it should be necessary for the claimant to bear the financial risk of the R&D activity in all circumstances. There will be commercial situations where (as is the case with BRANZ Inc.) the IP ownership is not held by the person or group undertaking the R&D. But IP ownership and R&D activity is held within a wholly-owned group structure.

Concluding statement

BRANZ Inc.'s purpose is to undertake R&D and the R&D tax incentive will boost the level of R&D activity it is able to undertake for the benefit of New Zealanders.

Thank for you the opportunity to comment on the proposals. We hope our submission will assist in shaping the final details of the regime.

Yours sincerely

s 9(2)(a)

From: s 9(2)(a)
To: RD Incentive; info@mbie.govt.nz
Cc: s 9(2)(a)
Subject: Research and Development Tax Incentive for New Zealand: University of Otago Submission
Date: Tuesday, 5 June 2018 2:58:07 p.m.

5 June 2018

Minister of Research, Science and Innovation, Hon Dr Megan Woods
Minister of Revenue, Hon Stuart Nash

Dear Megan and Stuart,

Please find enclosed below a response from the University of Otago on the R&D tax incentive.

The proposed 12.5% R&D tax credit seems like it will be useful in helping New Zealand achieve its target of increasing R&D expenditure to 2.0% of GDP by 2027 (from the current 1.28%).

The University of Otago hopes the tax credit will not, however, be the only tool deployed by Government to increase NZ's R&D expenditure. Rather, we hope it is one aspect of an integrated, variegated approach that will also include grants and direct investment (among other things).

As with all Government sponsored research, we think it is essential that safe checks are in place to ensure the proposed tax credit produces high quality R&D. (The excellence "pillar" of MBIE's National Statement of Science Investment states: "Investment should be subject to a rigorous test for the quality of the science undertaken.")

Ensuring methodologically rigorous R&D will be challenging, but the tax credit proposal document – and the New Zealand science system in general – offer various useful checks and balances.

Small enterprises that do not meet the $100k per annum annual R&D expenditure threshold will have the option of sub-contracting Approved Research Providers as third party research providers. The use of designated Approved Research Providers is a simple, effective accountability measure for those companies utilising this provision.

Some smaller organisations who do not meet the $100k per annum threshold will, however, wish to continue using their in-house R&D capability, and this is where a continuation of grants and direct investment becomes important – a nuanced, strategic approach.

To systematise thinking across sponsored entities, we believe data from all R&D that occurs

under the aegis of the 12.5% tax credit should be compulsorily integrated within the National Research Information System (NRIS) that is presently under development. This would promote transparency for accountability and audit purposes, and would enrich the breadth and scope of research data held within the NRIS. Over the longer term, this data might also enable the effectiveness of the tax credit policy to be monitored and assessed.

As a public university, we hope that any and all Government-sponsored R&D activity is committed to furthering the public good, with the ethical, legal and social implications of innovation being carefully considered along the way.

Yours sincerely

s 9(2)(a)

#30

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Friday, May 18, 2018 12:50:27 PM
Last Modified: Friday, June 01, 2018 11:21:11 AM
Time Spent: Over a week
IP Address: s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations — **Respondent skipped this question**

Q3 (iii) How long has your business been operating in New Zealand? — **Respondent skipped this question**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **Respondent skipped this question**

Q5 (v) What industry sector does your business operate in? — **Other services**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2016**

Q7 (vii) Has your organisation ever received any other R&D government support? — **Yes**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Likely**

Q9 How much R&D does your organisation expect to carry out in the coming year? — **$1M-$5M**

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

this will have a significant impact on our cash flow being a small company we need the quarterly payment to obtain resources to enable us to continue our R & D process

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

we believe the transitional period should be until the current funding finishes then all new R & D would be under the new system.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

reduce cash flow

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

it wil hinder us undertaking further R & D

#2

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, May 11, 2018 11:25:48 AM
Last Modified:	Friday, May 11, 2018 11:43:12 AM
Time Spent:	00:17:24
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Lonza NZ Ltd**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **50 – 99**

Q5 (v) What industry sector does your business operate in? — **Agriculture, forestry, & fishing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? — **Yes,**
If yes, please specify names of grant(s)/support.:
Student Grant

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Very likely**

Q9 How much R&D does your organisation expect to carry out in the coming year? **$1M-$5M**

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

We have had various forms of R&D grant/funding for many years. Our current R&D growth Grants started in 2013 and is due to expire end of September 2017. Since the new scheme is not due to start until 1April 2018 we will have no funding for 6 months. This will be result in significant detrimental change to our cash flow and most likely change in a reduced amount we are able to spend on R&D

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

We would prefer we could extend our Growth Grant for at least 6months until the tax credit scheme is due to start.
A comment on this online feedback form - the previous page asked for when we have had funding. My browser would only let me click one year - we have had an R&D growth Grant since 2013

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Since we will have no funding for 6months and the new scheme is a 12.5% tax credit compared to the 20% R&D growth grant we will have to most likely trim our planned budget once past 1st October 2017. This will mean less projects and possibly slower time to develop new products

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

The R&D Growth grant has been a great boost to my R&D program. Our new owners have continued with our history of relatively large R&D spend (vs gross sales) They have built a new $2million laboratory complex and I have been able to hire another 2 scientists. Obviously this new scheme will be less beneficial to Lonza and I will most likely be asked to trim future R&D budgets by the shortfall between our current 20% R&D growth grant and the planned 12.5% tax credit

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe. **Respondent skipped this question**

#3

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Tuesday, May 15, 2018 2:37:37 PM
Last Modified:	Tuesday, May 15, 2018 2:46:13 PM
Time Spent:	00:08:36
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations

Name of organisation	**Wood Engineering Technology Limited**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand?

10 years or more

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

10 – 19

Q5 (v) What industry sector does your business operate in?

Manufacturing

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support?

Yes,
If yes, please specify names of grant(s)/support.:
s 9(2)(b)(ii)

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Very unlikely

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

To date our policy has been to increase our annual R&D spend to include gents received and are likely to spend less. We are loss making and need cash to spend.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

As long as possible. We are about to commercialise our first product but have a significant continuing R&D programme that ends to be funded. The 20% grant bring forward our spending.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

it will be pushed out, there will be less cash available.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

None, it is what it is.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

s 9(2)(b)(ii)

#5

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 17, 2018 4:00:54 PM
Last Modified:	Thursday, May 17, 2018 4:06:44 PM
Time Spent:	00:05:49
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals

Email address	s 9(2)(a)

Q2 (ii) For organisations

Name of organisation	**Quantec Limited**
Contact person name	s 9(2)(a)
Position	s 9(2)(a)

Q3 (iii) How long has your business been operating in New Zealand?	**6 to less than 10 years**
Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.	**1 – 5**
Q5 (v) What industry sector does your business operate in?	**Professional, scientific, & technical**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2013**

Q7 (vii) Has your organisation ever received any other R&D government support?	**Yes,** If yes, please specify names of grant(s)/support.: Many of the schemes over the years. Graduate student projects, specific project funding, etc.
Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)	**Very unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

It is a high impact. As a SME that is heavily involved in new research and development (we call ourselves an R&D pipeline business), we are still in the early stages of investing heavily in R&D and taking large risks. With the 20% Growth Grant funding, we can take larger risks. This incentive will disappear with R&D tax credits.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

We do not believe there should be a transition. A hybrid scheme that allows direct R&D funding for early stage companies, the life-blood of high-tech growth in the country, along with an R&D tax scheme for more established, profit-generating companies would be ideal.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

s 9(2)(b)(ii)

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Our current grant runs out in Sep 2018, so the impact will be felt immediately.

#7

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, May 18, 2018 8:42:03 AM
Last Modified:	Friday, May 18, 2018 9:01:08 AM
Time Spent:	00:19:04
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations

Name of organisation	**Storypark**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? **6 to less than 10 years**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. **20 – 49**

Q5 (v) What industry sector does your business operate in? **Information media &**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **Yes**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) **Unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year? s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Currently we are hiring new developers in advance to undertake R&D knowing that quarterly we will have the growth grant come through. From my understanding the tax incentive won't allow us to invest as much in advance because we will have to wait until the EOY to claim the credit and it only reduces our tax obligation which doesn't help a high growth company like ours because we are growing at the speed of revenue intentionally not making a profit.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Good communication from Callaghan customer managers so we understand the implications.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

It will give us some uncertainty in how much additional resource we invest in R&D e.g. we were aiming to have 20% more R&D with the Growth grant.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

From my very limited understanding it seems like a rich get richer policy as the benefits will go to companies turning a large profit.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Not sure what the temporary grant refers to, the existing growth grant we have? If so then the current growth grant is hugely valuable to us as it allows us to have more resource invest in R&D.

#14

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Monday, May 28, 2018 8:18:41 AM
Last Modified:	Tuesday, May 29, 2018 10:39:55 AM
Time Spent:	Over a day
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Technopak Limited**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **20 – 49**

Q5 (v) What industry sector does your business operate in? — **Manufacturing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2012**
R&D Growth Grant	**2014**

Q7 (vii) Has your organisation ever received any other R&D government support? — **Yes,**
If yes, please specify names of grant(s)/support.:
International Growth Fund

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Very likely**

Q9 How much R&D does your organisation expect to carry out in the coming year? s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Cash-flow impact arising from the incentive being a tax credit to imputation credit vs cash would mean that if the surplus is retained in the business (i.e. no dividend distribution), then the incentive does not help at all.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Negligible time required for transition

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Negligible

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Current growth grant expires on 30th June 2019

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

N/A

#15

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Tuesday, May 29, 2018 10:55:23 AM
Last Modified: Tuesday, May 29, 2018 11:25:04 AM
Time Spent: 00:29:41
IP Address: s 9(2)(a)

Page 2

Q1 (i) For individuals

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations

Name of organisation	**Javelin Limited**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand?

6 to less than 10 years

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

10 – 19

Q5 (v) What industry sector does your business operate in?

Information media &

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2013**
R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support?

Yes,
If yes, please specify names of grant(s)/support.:
All through Callaghan Innovation.

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Very unlikely

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

The proposed move to a R & D tax credit system will have a very large impact on our business and resulting cashflow. R & D tax credits are of no use to a business like ours that chooses to invest every available dollar into R & D activities. As a result, our business has a break even position -therefore tax credits will not be available to us. If the tax credit system is introduced, we will be forced to reduce/halt all R & D activity. The growth grant allows us to rely on additional cashflow that we can reinvest in R & D. Allowing us to get our commercial initiatives to market quicker!

Tax credits are of no use at all to a business that breaks even or is loss making.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

A necessary transition period for our business is as long as possible. At least as long as necessary to see our business to become cash flow positive.

The reality of our position is that if the transition period ends before our business is cashflow positive, we will be forced to scale back/stop R & D activity and I am sure that this is not the desired outcome of the R & D tax credit system.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

See the answer to Q1 above.

s 9(2)(b)(ii)

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

R & D activities in start ups in our opinion will seriously change with the proposed changes to a R & D tax credit system. Often the brightest and most successful commercial ideas come from start ups. These start ups do not make any money in the first 5 years of their lives but go on to be very successful and profitable entities employing 1000's if not 10,000's of New Zealanders. By removing access to growth grant funding for these entities will significantly reduce the number of bright ideas that come from NZ.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

A huge impact. s 9(2)(b)(ii)

We see that the opportunity for start ups to survive in NZ where capital is harder to get than off shore will be significantly reduced with the introduction of the proposed R & D tax credit system.

#18

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Wednesday, May 30, 2018 1:32:57 PM
Last Modified: Wednesday, May 30, 2018 1:48:47 PM
Time Spent: 00:15:50
IP Address: s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Arrowhead Alarm Products Ltd**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **20 – 49**

Q5 (v) What industry sector does your business operate in? — **Manufacturing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2014**

Q7 (vii) Has your organisation ever received any other R&D government support? — **No**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year? — s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

The proposed transition arrangement is difficult to fully quantify as to the impact on our company. If it requires more reporting then it will add an extra burden on our staff but unsure at this stage if that would happen or not.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

I feel the current transitional period is acceptable.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

It is likely we will receive less in the way of R&D support as the tax figure may not reach the current Growth Grant amount.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Respondent skipped this question

#20

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 31, 2018 9:19:54 AM
Last Modified:	Thursday, May 31, 2018 10:06:17 AM
Time Spent:	00:46:22
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals	**Respondent skipped this question**
Q2 (ii) For organisations	
Name of organisation	**NZ Trade Group Ltd**
Contact person name	s 9(2)(a)
Position	
Q3 (iii) How long has your business been operating in New Zealand?	**10 years or more**
Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.	**10 – 19**
Q5 (v) What industry sector does your business operate in?	**Education & training**
Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?	**Respondent skipped this question**
Q7 (vii) Has your organisation ever received any other R&D government support?	**Yes,** If yes, please specify names of grant(s)/support.: Growth Grant January 2018
Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)	**Very unlikely**
Q9 How much R&D does your organisation expect to carry out in the coming year?	s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Our growth grant termination is set for Dec 2020, s 9(2)(b)(ii) so not a cashflow win at all for our business. As far as I can tell internal reporting will remain basically the same.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

No transition period for existing growth grants, they should be allowed to continue to the end of the original termination date and extensions applied if warranted, companies like ours and others have taken the harder path to prove their worth in R&D funding from the government through the Callghan process so why transition us to an easier process to at a lower rate.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

The decrease from 20% growth grant to 12.5% tax incentive DOES not in anyway incentivise our business to spend more money on R&D it actually has he opposite affect for our business

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

I can see that easier access to funding at a lower rate makes R&D funding accessible to more NZ companies however I strongly disagree with the approach to basically penalise existing growth grant participants by forcing them to transition to lower tax incentive funding rates. In our case funding could well be cut to nothing as our plans are to invest with little or no tax liability.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Our business spends nearly all available cashflow on either company improvements or R&D the majority being on R&D, how does a tax incentive help my business when I have no tax liability to apply it against?

#23

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 31, 2018 2:44:23 PM
Last Modified:	Thursday, May 31, 2018 2:54:17 PM
Time Spent:	00:09:54
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations

Name of organisation	**Outpost Central**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. **20 – 49**

Q5 (v) What industry sector does your business operate in? **Agriculture, forestry, & fishing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2015**
R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? **No**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) **Very unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Severely impact cash flow.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

3 years. The growth grant has given our business the confidence to hire more people. We need time to grow the business to be able to sustain these people without a grant.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

We will not increase R&D spend and try to grow the business to support the additional hires before the grant ends.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Respondent skipped this question

#24

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Thursday, May 31, 2018 2:51:45 PM
Last Modified:	Thursday, May 31, 2018 2:59:26 PM
Time Spent:	00:07:41
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Nautech Electronics Ltd**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? — **10 years or more**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **50 – 99**

Q5 (v) What industry sector does your business operate in? — **Manufacturing**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support? — **Yes,**
If yes, please specify names of grant(s)/support.:
TDG 2011 Growth Grant 2017 RD Fellowship

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Very likely**

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Impact on cashflow and R&D program.
A 12.5% tax credit is a waste of time.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Respondent skipped this question

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

We will probably reduce our R&D spend, the growth grant system does take time to apply for and manage but is a fair system. I believe it should be increased, if you want to keep innovation and manufacturing in NZ, 20% is not enough.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Respondent skipped this question

#28

COMPLETE

Collector: Web Link 1 (Web Link)
Started: Friday, June 01, 2018 7:53:58 AM
Last Modified: Friday, June 01, 2018 8:08:37 AM
Time Spent: 00:14:39
IP Address: s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**Aportio Developments Limited**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand? — **Less than 2 years**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **1 – 5**

Q5 (v) What industry sector does your business operate in? — **Professional, scientific, & technical**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**None**

Q7 (vii) Has your organisation ever received any other R&D government support? — **No**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Unlikely**

Q9 How much R&D does your organisation expect to carry out in the coming year? — s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

It is unclear whether the total value of the tax incentives will be the same as the value of the growth grant. If the value is less, or the conditions differ, it will significantly impact the ability of our business to carry out the higher risk more innovative areas of our R&D programme. If only the timing differs it will impact our cashflow. As a new company, particularly one carrying out significant R&D, bank funding is difficult to attract and therefore the more regular funding from the Callaghan programme provides the necessary cashflow throughout the year.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

In our current business environment, the traditional 5-10 year plans realistically can only be made for 3 years. But it is important to have some stability for at least those three years. A transition period which allows businesses certainty about funding sources and value is therefore important for at least 3 years; enabling companies to take the risks of R&D which the government is trying to encourage.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

The Callaghan programme, as a 3 year contract with the government, provides a high level of certainty for businesses undertaking R&D. As noted above that is the minimum period for which certainty is necessary to encourage companies to innovate. A transition to and a tax credit scheme provides less certainty.

Q13 Q4 Please provide any other comments about the proposed transition arrangements. **Respondent skipped this question**

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Temporary relief for loss making companies is a positive step. However the reality is that companies undertaking R&D activities are likely to be in a loss position for an extended period and therefore, post the transition period, this scheme will provide less support for and therefore discourage the first levels of innovation, without which there can be no continued innovation. I believe it will, therefore, significantly impact NZ as a place of innovation.

#29

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, June 01, 2018 10:35:29 AM
Last Modified:	Friday, June 01, 2018 10:50:11 AM
Time Spent:	00:14:41
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals

Name	s 9(2)(a)
Email address	

Q2 (ii) For organisations

Name of organisation	**Orion Health**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand?

10 years or more

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

100 or more

Q5 (v) What industry sector does your business operate in?

Information media &

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Growth Grant	**2013**

Q7 (vii) Has your organisation ever received any other R&D government support?

Yes,
If yes, please specify names of grant(s)/support.:
Callaghan grants, Partnership Grant through Precision Driven Health

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Very unlikely

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

s 9(2)(b)(ii)

The new program is substantially less attractive or helpful than a growth grant, since any cash benefit is not realised until a profit is made.

The cash is much more helpful at the time of investment, not the time when profit is achieved.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

Our growth grant is in the fifth year, and we were hoping it would be extended further.

Our company is still in a major investment phase for the future, so a transition phase would help.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

We will spend less on R&D because there is less money being made available to us.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

Respondent skipped this question

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Our growth grant will expire before 31 March 2019, so as I understand we are not being offered any transition.

This means we will have to reduce our R&D spending.

#37

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, June 01, 2018 1:33:57 PM
Last Modified:	Friday, June 01, 2018 1:59:17 PM
Time Spent:	00:25:20
IP Address:	s 9(2)(a)

Page 2

Q1 (i) For individuals — **Respondent skipped this question**

Q2 (ii) For organisations

Name of organisation	**New Zealand Taxpayers' Union**
Contact person name	**Louis Houlbrooke**
Position	**Communications Officer**

Q3 (iii) How long has your business been operating in New Zealand? — **2 to less than 6 years**

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners. — **6 – 9**

Q5 (v) What industry sector does your business operate in? — **Other services**

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**None**
R&D Growth Grant	**None**

Q7 (vii) Has your organisation ever received any other R&D government support? — **No**

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.) — **Don't know**

Q9 How much R&D does your organisation expect to carry out in the coming year? — **$100k-$500k**

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

Little to none.

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

None is required. We represent taxpayers who deserve to know their money is not gambled on a small handful of politically fashionable businesses.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

Little to none.

Q13 Q4 Please provide any other comments about the proposed transition arrangements.

We support the transition.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

Little to none.

#39

COMPLETE

Collector:	Web Link 1 (Web Link)
Started:	Friday, June 01, 2018 11:05:41 AM
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Time Spent:	03:07:36
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Page 2

Q1 (i) For individuals

Respondent skipped this question

Q2 (ii) For organisations

Name of organisation	**Blis Technologies Ltd**
Contact person name	s 9(2)(a)
Position	

Q3 (iii) How long has your business been operating in New Zealand?

10 years or more

Q4 (iv) How many employees (FTEs) are employed by your business in New Zealand? Please include full-time and part-time employees but do not include contractors or the business owners.

20 – 49

Q5 (v) What industry sector does your business operate in?

Health care & social assistance

Q6 (vi) Has your organisation ever received a R&D project or R&D growth grant?

R&D Project Grant	**2016**
R&D Growth Grant	**2017**

Q7 (vii) Has your organisation ever received any other R&D government support?

Yes,
If yes, please specify names of grant(s)/support.:
PhD and Masters fellowship support

Q8 How likely is it that your organisation will be in a position to use the full amount of an R&D tax credit in the 2019/20 tax year? (Note, to use the full amount of a R&D tax credit in a given year, your business' tax liability needs to be at least as large of the R&D tax credit you are entitled to claim.)

Very unlikely

Q9 How much R&D does your organisation expect to carry out in the coming year?

s 9(2)(b)(ii)

Page 3: Responses to questions in the consultation document

Q10 Q1 What impact will the proposed transition arrangements have on your business? For example, your cash-flow or internal reporting mechanisms? Please describe.

•s 9(2)(b)(ii)

• The proposed changes are regressive and unfairly penalise smaller companies that are at the early stages of commercialising their R&D investment. Companies like us benefit from the regular cash injection of the growth grant and would derive no immediate benefit from a deferred tax credit that may or may not be realised.
• As a very recent recipient of a Growth Grant Approval our company has created budgets and long term plans based on a quarterly rebate of 20% on eligible R & D spend. This cash payment being quarterly is valuable to support the companies cashflow needs and provides certainty for budgeting.
• As a listed company we are obliged to provide 6 monthly accounts on the company performance. Along with this we typically update the market on our quarterly performance. The current growth grant process of quarterly rebates provides clarity and certainty for these reporting requirements.
• We have gone to considerable effort and expense in completing the requirements for this Growth Grant application, including an external audit of our processes and financial records to verify our historical capture of R & D spend over 2 years at considerable expense. This was undertaken with the knowledge that a 5 year growth grant offset the expense that would be incurred during the application. With only 2 years of proposed transition the business case for going through the approval process would not have been justified.
•s 9(2)(b)(ii)

Q11 Q2 What do you believe to be a necessary transitional period? Please explain the reasons why this is necessary for your business?

• The transition period should honour the Growth Grant contract arrangements. We have made an investment to complete the registration process for the growth grant both in terms of actual financial cost of engaging external professionals to support the application process and our own staff's time. This investment would not have been made if it was known that the grant period was to be shortened.

Q12 Q3 What impact will the proposed transition arrangements have on your R&D programme over the next few years?

•s 9(2)(b)(ii)
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Q13 Q4 Please provide any other comments about the proposed transition arrangements.

• Blis Technologies approval for a growth grant allowed for a minimum of 3 years ending 30/9/2020 with the opportunity for a 2 year extension.
• Under the proposed transition we will effectively be losing 2 ½ years of 20% rebate on eligible R & D spend and the benefit of quarterly payments and the certainty this represented.

Q14 Q5 For businesses in tax loss, what impact will the proposed temporary grant have on your business during the transition process? Please describe.

- s 9(2)(b)(ii)

- The proposed transition is not sufficient to meet our existing 5 years plans for R & D spend.
- As business we would immediately need to revise any planned R & D investment that goes beyond the transition period and hold off on any new activity as we cannot be certain of our ability to continue to fund this R & D.

NEW ZEALAND POST GROUP

New Zealand Post Group

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1 June 2018

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Ministry of Business, Innovation & Employment
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FUELLING INNOVATION TO TRANSFORM OUR ECONOMY

The New Zealand Post Group ("NZ Post") welcomes the opportunity to provide its feedback to the government's consultation on a research and development (R&D) Tax Incentive for New Zealand.

The NZ Post Group, one of New Zealand's largest business groups, consists of a range of businesses providing communication and business solutions from the mail and courier business through to digital solutions, warehousing and supply chain logistics (see here for further information https://www.nzpost.co.nz/about-us/who-we-are).

Overall, NZ Post strongly supports the government's proposal to introduce from 1 April 2019 tax relief on associated R&D business expenditure undertaken in New Zealand and its long-term vision to incentivise and grow R&D investment activity within the private sector.

Increased R&D is very important to the successful future of the wider NZ economy and to NZ Post's core business activities. For example, NZ Post's mail and logistics business operates in a very challenging and competitive environment, and in domestic and international markets that are rapidly evolving due to changing demands for services and improved technology.

Continued business innovation, supported and driven by R&D investment, is key to tapping into the growth of e-commerce and to enhance our product and service offering to ensure our customer service is aligned with customer expectations for both senders and receivers (importers and exporters). The proposed R&D Tax Incentive would also help NZ Post's business partners and customers to grow and innovate.

However, we are concerned that the discussion document appears to suggest that the new Tax Incentive would only be made available to private sector businesses. This would preclude government entities such as NZ Post with its State-Owned Enterprise status from participating in the regime, whereas its competitors would be eligible.

We believe it is important that NZ Post should be able to compete on an equal basis and have access to the same tax relief that is available to our private sector competitors, both domestic and international, with which NZ Post directly competes. We have outlined our views more fully on this point further below in our response to Question 1.

What is our role in R&D in New Zealand?

NZ Post has a very strong commitment to business innovation across its range of businesses. We see ourselves as a leading adopter and supporter of new innovation involving the use and application of leading edge new technology. NZ Post is not an intensive research and development business that commits significant annual expenditure to fund internal or external R&D projects. This is not to say that NZ Post lacks a focus on innovation.

NZ Post has also heavily invested in business innovation. As an example, we have rolled out a fleet of fully electric specialist delivery vehicles (the Paxster) and now have the largest EV fleet in the country. We have also recently received the first of five electric vans that will be trialled in our metro courier and delivery fleets. These vehicles enable NZ Post to add much-needed delivery capacity as parcel volumes grow, with little or no increase in equivalent emissions.

Additionally, R&D investment supporting software development and digitisation helps to build our digital platforms for enhancing customer experience with tracking systems, and the ability to access real time information from any location, and helps to drive our state-of-the-art mail processing equipment improving the efficiency of NZ Post operations.

Future innovation, and the R&D investment underpinning it, is therefore fundamental to NZ Post delivering on its key strategic priorities and is an important factor contributing to a more customer centric, responsive and commercially viable and sustainable business.

NZ Post is therefore continually investigating new products and technologies that can help innovate our products and services to meet changing customer needs and expectations, and leverage opportunities to build new digital capability.

NZ Post also partners with a lot of different organisations to deliver our products and services – and to help them deliver theirs. Through these key partnerships, we leverage advancements in technology to enhance our business capability and sustainability. This could include continuing to invest in electric vehicles, improving the energy efficiency of our buildings, increasing first time delivery rates, reducing our waste to landfill, ensuring we have good network utilisation, and collaborating with suppliers and customers on low carbon initiatives.

Promoting more R&D within New Zealand is also important considering New Zealand is sufficiently different from other countries that we cannot always simply utilise commercial off-the-shelf solutions and apply them to New Zealand terrain and demography (for example, using unmanned drones to deliver parcels).

The proposed Tax Incentive could also incentivise the use of New Zealand based labour for development of new technological solutions, as the current market predisposes New Zealand businesses to invest in larger offshore environments where research costs can be spread across a wider range of users. The proposed tax credit may be sufficient to allow New Zealand business to develop more skilled labour in New Zealand, which in turn could generate additional export value for New Zealand by then selling innovations to overseas operators.

Question 1: If SOEs, Crown Research Institutes, District Health Boards, Tertiary Education Organisations, and their subsidiaries are excluded from the tax incentive, what will the likely impact be on business R&D in New Zealand?

We consider that, in principle, the government's proposed Tax Incentive should be made available to government-owned entities, and especially to State-Owned Enterprises (and their subsidiaries) when such entities are expected to operate on a commercial basis in direct competition with private sector businesses that would be eligible for the Tax Incentive.

New Zealand Post Limited is a State-Owned Enterprise (SoE) under the SoE Act 1986. The legislative framework establishes certain expectations on NZ Post including that the company operates at arm's-length from the government and on a commercial basis, delivering commercial rates of return, while being a good employer and exhibiting a sense of social responsibility[1]. Furthermore, when the Postal Services Act was passed in 1998, the New Zealand postal market was deregulated opening it to full competition. In NZ Post's case, the government does not contribute any funding to support its day-to-day business activities.

The discussion document has not elaborated on why there is a policy that government entities should be excluded from the new Tax Incentive, other than the precedent of not having access to the previous 2008 tax credit regime or the government's existing R&D Growth Grants scheme that has been administered by Callaghan Innovation since 2013 (which the proposed Tax Incentive is replacing). Even if it is policy to exclude certain government entities, officials should recognise that some SoEs are not in the same position as the other entities listed which generally have access to funding and specific research functions.

To the extent that NZ Post is obligated under legislation to compete with private commercial entities and to be at least as efficient as commercial entities in the same business, the provision of tax credits to our competitors places NZ Post at a disadvantage. In practice, SoEs such as NZ Post should be allowed access to tax incentives as we are required to act in a commercial manner and don't have access to any other specific R&D funding from government sources. It's also our view that as an SoE, it would be a shame to be constrained from participating in the step change in R&D investment the government is targeting.

For example, it could create an uneven playing field regarding the development of new delivery modes and processes and supporting technology. This would act as a constraint on NZ Post to develop better and more sustainable services for the delivery of parcels and logistics services to New Zealanders when compared to purely commercial entities such as DHL, Freightways and Fastway.

NZ Post therefore recommends that that government considers widening the scope of access to government-owned entities such as NZ Post, that operate on a commercial basis, are self-funding and are able to meet the eligibility requirements for R&D tax credits once the new Tax Incentive is implemented.

1 Pursuant to the SoE Act 1986, NZ Post is required to operate as a successful business and specifically to be as profitable and efficient as comparable businesses that are not owned by the Crown; to be a good employer; and to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

The government should also take into consideration that exclusion of government-owned entities could hinder or prohibit potential private-public R&D partnerships that could create industry-wide solutions to existing problems e.g. development of fatigue monitoring management systems for light commercial vehicle operators. It could also prevent NZ Post partnering with R&D organisations, such as universities, that may be better placed to undertake the actual research.

In terms of what would the likely impact be on business R&D in New Zealand as a whole if the Tax Incentive was not made available to government entities, we expect it would have the effect of discouraging government sector R&D investment and cooperation. To maximise the benefits of R&D flowing through to the economy, the government should be maximising all potential sources of R&D investment.

If the government's proposed Tax Incentive was made available to SOEs, NZ Post would be likely to explore options to commit expenditure on R&D where we see value. In the discussion document, one of the government's key objectives of introducing the Tax Incentive is 'encouraging sustainability activity that is innovative, diverse and high value'.

As noted above, NZ Post is continuously seeking to reduce the environmental impact of NZ Post operations where this is commercially feasible. NZ Post has a goal to be carbon neutral by 2030 and to help achieve this, we have created a decarbonisation fund to invest in low carbon activities. In FY19, the value of the fund will be approximately $1.5 million. We are also looking at new technologies, and processes that can reduce our carbon emissions. Carbon emission reduction, energy efficiency and waste reduction and recycling are key areas of focus and are intrinsically linked to successful R&D undertaken in the private business sector.

Potential R&D investment undertaken by NZ Post could encompass more efficient low carbon transport options or new innovative approaches to service design and delivery. A tax incentive would support us to trial new technologies such as electric vehicles and other non-fossil fuel technologies in our network. These trials help us to gain knowledge, and improve processes to support the adoption of new technology as soon as we can.

A tax incentive applied to these trials including associated costs (not just the cost of the technology) such as staff time would be helpful to innovation and decarbonisation. Similarly, there are other areas that we could direct R&D expenditure to such as finding an alternative to plastic mailers.

Currently, we only passively adopt new technology when it becomes available, we do not drive the R&D. Giving SoEs access to the Tax Incentive would further support the government's economic strategy through "productive, sustainable and inclusive growth" if we can partner with other NZ businesses and innovators.

Question 9: What is the likely impact on business R&D in New Zealand if dual purpose activities are ineligible for the R&D Tax Incentive?

While there will be an element of risk, NZ Post does not agree with the proposal that the Tax Incentive would be better targeted if it applied to an activity conducted solely for an R&D purpose. Arguably, in a commercial context, all R&D is undertaken with a non-R&D purpose and should not be viewed as a purely 'scientific' exercise. For businesses in most cases, there will be desire to gain some commercial benefit or outcome from R&D investment - R&D activity does not exist in a laboratory's vacuum.

Question 10: What are the advantages and/or disadvantages of limiting eligible expenditure to R&D labour cost?

NZ Post would prefer the second approach for determining eligible expenditure outlined in the discussion document, being on a broader range of direct and indirect costs (including options for determining appropriate overhead expenditure). This approach will more accurately capture the relevant expenditure.

Businesses in tax loss

We note that the discussion document notes that "The Tax Incentive to be introduced from 1 April 2019 will be "non-refundable." Businesses in loss, or whose tax credit is greater than their tax liability, will be able to carry forward their tax credit to a future tax year."

In our view, the government should contemplate making the Tax Incentive "refundable". Non-refundable relief is undesirable because businesses in loss will not receive any cash benefit from the incentive until they become profitable (tax paying).

NZ Post has no further comments to make at this stage. We note that the discussion document contemplates further consultation with stakeholders on various aspects of the proposed Tax Incentive's design and implementation. NZ Post is keen to be involved in these further discussions.

Yours sincerely,

s 9(2)(a)

New Zealand Post Limited

SOLARCITY

R&D Tax Incentive Team
Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140

31 May 2018

By email: RDincentive@MBIE.govt.nz

Dear Sir/Madam

R&D Tax Incentive Submission
Thank you for the opportunity to provide a response to the discussion paper "Fuelling Innovation to Transform Our Economy" (dated April 2018).
This submission is in relation to the research and development infrastructure and environment that solarcity may wish to utilise now and in the near future as the business seeks to build on its current energy services platform and enter its next stage of significant growth. Of particular importance to solarcity is how research and development tax incentive policy could accommodate businesses in taxable loss positions.

Background to solarcity
Unique to the New Zealand market, solarcity's core proposition (solarZero) is to offer New Zealand households the opportunity to swap their existing power bill for something cheaper that is fixed for 20 years, working with the household to reduce energy consumption, expenditure and provide certainty through the deployment of battery storage systems.
solarcity's solarZero platform has won a series of innovation awards and the Company continues to build upon the platform.

The core of the solarZero proposition is to offer a comprehensive energy services relationship, including:

- More affordable clean energy, cheaper and fixed for 20 years;
- Intelligent in-home energy monitoring that gives the customer the data it needs to use energy more efficiently in the home to drive down the amount of power they source from the grid; and
- Battery technology to generate greater benefit from solar, provide backup power and facilitate the trading of energy across the network.

Removal of uncertainty around the R&D tax incentive system
Having a solid and stable R&D tax incentive scheme is critical to start-up and growth entities. It provides confidence to entrepreneurs that financial support will be available throughout the lifecycle of the research and development process. Without a strong degree of legislative certainty, we envisage there will be less entrepreneurs willing to embark on research and development activities.

A stable research and development incentive scheme is also important platform for entities to raise capital; giving investors' confidence that the business have sufficient capital to be supported through its growth phase.

R&D Tax Credits needs to be refundable for start-up/early stage companies
The R&D Tax Incentive which is to be introduced from 1 April 2019 is proposed to be "non-refundable" and therefore the support it will provide to start-up and early stage businesses which are usually in a

tax loss position is negligible. These businesses will only be able to carry forward their tax credit to a future tax year. This proposal is inconsistent with many global R&D tax credits (e.g. Australia, UK and Canada) which are refundable to early stage companies in a tax loss position.

As the Government undertakes further assessment of this issue we strongly urge it to consider a "refundability" mechanism and that these refunds are paid on a quarterly basis. Start-up companies need cash in order to fund their ongoing R&D Activities and to accelerate the growth of the business. While there is uncertainty around the refundability of the R&D Tax Incentive it will be more difficult for early stage businesses to raise capital from investors.

Callaghan Growth Grants

We note that the Government is proposing that the Growth Grant Scheme will end 12 months after the start of the R&D Tax Incentive. While we support the introduction of the R&D Tax Incentive, our view is that the Growth Grants should continue as well, or that all grants that have been written and executed should be allowed to run until completion. While there is uncertainty around the Callaghan Grant programme it will be more difficult for early stage businesses to raise capital.

We also strongly urge the NZ Government to consider offering a combination of both Growth Grants and the R&D Tax Incentive, so that start-up companies can access both programmes (but not for the same activities/expenses). By offering both programmes the Government provides start-up businesses with options, encouraging them to be innovative.

Minimum threshold (Question 15)

The minimum eligible expenditure threshold is proposed to be set at $100,000 in order for a company to qualify for the R&D Tax Incentive. While this minimum threshold does not apply to R&D activities outsourced to an Approved Research Provider, we think this threshold is too high for start-up companies. Many start-up businesses run very light for the first year or so.

We recommend the minimum expenditure threshold is reduced to $20,000 in order to allow early stage companies to access the R&D Tax Incentive at a time when it is material to their ongoing activities.

Compliance costs (Question 21)

The purpose of a broad based R&D Tax Incentive is to encourage business to undertake R&D in a manner which is streamlined and supportive to their stage of growth. However, we are concerned that the compliance burden will be very high for SMEs. The reporting, capturing and compliance costs for SMEs is likely to be high and in some instances may be prohibitive to access the R&D Tax incentive.

To enable a streamlined compliance process, we ask that good clear guidance materials are published, and that application processes are designed to be streamlined. If not, time poor early stage companies will need to engage a consultant, which is just another cost to cash poor businesses.

Software activities eligible for R&D support (Question 13)

The proposed definition appears to focus on more traditional laboratory-based R&D whereas software development activities are significant to NZ's early stage companies. A scientific definition of R&D which includes "material advance in science or technology" will restrict the type of software development activities which qualify. This definition appears to focus on research, not development.

R&D in software will be a significant part of our business going forward. Although we don't necessarily 'material advance' science and technology we development software to solve complex technology problems and deliver new products. This type of R&D should qualify.

R&D Definitions (Questions 2,3 &4)

The Paper provides a definition of what R&D is Page 15 and well as some exclusions (page 17). In particular it refers to the intention to advance science or technology through the resolution of scientific or technological uncertainty. This can provide some issues in certain industries (such as software) as it is difficult and often subjective to demonstrate that you are advancing science or technology due to the unknowns.

Dual Purpose R&D Activities (Question 9)

Start-up and early stage companies are usually focused on developing new products based on customer-focused innovation. This enables us to create products which have real-world appeal. To achieve this, the R&D needs to occur in a commercial environment, and is often undertaken in collaboration with potential customers. As a result, most of these R&D activities have multiple purposes, even if R&D is the main purpose.

We think the sole purpose test should be replaced with another requirement which indicates the main purpose of the activity needs to be R&D, but it's not always the sole purpose.

R&D expenses (Questions 11 & 12)

The Discussion Document proposes to limit the expenses a company can claim to only labour costs or to apply a standard overhead rate. Applying a standard overhead rate based on labour costs would reduce the company's ability to include the actual costs it spends on the R&D project. The best solution would be to just let companies claim the costs they actually spend on the R&D.

Please make contact if you have any questions.

Yours faithfully

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pwc

Re: R&D tax credit incentive Discussion Document
C/- Deputy Commissioner, Policy and Strategy
Inland Revenue Department
PO Box 2198
Wellington 6140

1 June 2018

Fuelling Innovation to Transform Our Economy, Discussion Document

Dear Madam

We appreciate the opportunity to comment on the Discussion Document "Fuelling Innovation to Transform Our Economy" (Discussion Document).

Our submission consists of views and comments from the Angel Association New Zealand, New Zealand Venture Investment Fund and PwC. In forming those views, we have liaised widely with a number of businesses, especially those that are in the seed and angel investment phase.

We have come together to jointly submit on the Discussion Document as we are in agreement that there is a need for the Government to at a minimum maintain or otherwise increase its support to encourage further research and development (R&D) activities in New Zealand (NZ). Our view is consistent with the stated policy intent of the Discussion Document, which is to increase the level of private sector R&D spend in NZ to 2% of GDP within the next 10 years.

More importantly, we see the need for the continued financial support for early stage businesses. New R&D focussed businesses are an integral part of the NZ economy that are building and finding new products/services that NZ can take to market. Therefore, it is critical that any R&D incentive package continues to support new businesses.

General comments

We strongly agree with the Government's acknowledgement of the importance of innovation to the NZ economy and, in particular, R&D active businesses. We further agree that it is important to provide real support to these R&D firms in order for them to grow and "move further up the value chain" in the NZ economy.

We are also positive with respect to the Government's attitude that "sustained increases in government investment are important" and are required in tandem with growing private investment in NZ's R&D active businesses.

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The proposed tax credit incentive is a welcome addition to the NZ R&D landscape and could be effective as an element of a wider package of support for NZ R&D, the possibility of which is highlighted in the Discussion Document. We also think that the proposed incentive would be of utility to established medium to large enterprises undertaking valuable R&D work in NZ. However, in its current form, the proposed tax credit will be an inadequate tool to support R&D active SMEs or loss making entities (emphasis on start-ups) due to the combined negative impact of the following features of the proposed R&D tax credit:

1. The inherent lack of utility of a non-refundable tax credit for businesses that are typically cash constrained, invest in R&D and growth, and take a number of years to reach an income tax paying position;
2. The removal of Callaghan Innovation Growth Grants (Growth Grants);
3. The potential removal of the R&D tax loss credit at the end of 2019-20 tax year;
4. The potential that continuity provisions may apply to the tax credits;
5. The proposed definition of "research and development" would appear to exclude many activities and associated expenditure that would be within the definitions of R&D for Growth Grant and R&D tax loss credits; and
6. The imposition of additional compliance costs for potentially no benefit.

We recommend that the Government outlines in detail the policy intent for reducing cash support for loss-making start-up type businesses that typically could access Growth Grants and potentially R&D tax loss credits.

In our view, and even for an interim period, providing less support for loss-making start-ups contradicts the broader policy goal of increasing the level of private sector R&D spend in NZ.

We further note that the coverage of Growth Grants and R&D tax loss credits are different. In particular, the R&D tax loss credits was introduced as a supplement to the Growth Grants as there is a minimum spend requirement before a business is eligible to the Growth Grants. Therefore the removal of either one of the two schemes will likely negatively impact a different group of businesses that are accessing the cash support.

Our submissions below aim to assist the Government to bring an increased level of support into effect.

1. Eligibility requirement and ownership of intellectual property

Page 14 of the Discussion Document outlines various eligibility requirements including that the taxpayer "effectively owns the results of the R&D".

Often when a NZ company is acquired by a foreign group, all intellectual property is transferred as part of the transaction to a non-NZ entity that is part of the buyer's group for commercial and intellectual property protection reasons. The NZ company would then continue to undertake R&D activities from NZ, but a foreign entity in the same group as the NZ company would own all resulting R&D.

We request that the Government clarifies what "effectively owns the results of the R&D" means in the context of this example.

2. Rate and non-refundable nature of tax credit

Winners - medium to large enterprises

As the proposed incentive is in the form of a non-refundable 12.5% tax credit, it will be of most benefit to businesses in profit or soon to be in profit. This is most likely to be medium to large enterprises with a history of R&D work (which investment will have already created net profits).

Established medium to large enterprises that are already carrying out R&D activities without Growth Grant allowances and are not in a tax loss position will be the biggest winners if the tax credit is enacted in the current proposed form. We agree that this will be a positive change as these larger players with their own funding, plus an additional tax credit, will be encouraged to, and be able to, carry out more sophisticated and high-cost R&D work than they may have done otherwise. This will also assist them to carry out valuable work on a scale that SMEs cannot.

However, for businesses that are using a Growth Grant and receiving an allowance (which effectively provides a net cash benefit of 14.4%), the 12.5% tax credit will be a reduction to the previous benefit. The businesses that currently have a Growth Grant are more likely to be smaller businesses who are unable to fund their own R&D activities in the same way as medium and larger enterprises.

We submit, in line with our general comments above, that any introduced incentive scheme must increase the level of support for R&D active businesses. If the rate of the benefit is reduced, there is less incentive than before – which is opposite to the Government's stated goals.

We therefore submit that the 12.5% tax rate should be reconsidered and increased for certain businesses, with reference to any previous R&D incentives they have received under the Growth Grant scheme or support from the tax loss cash out mechanism.

Losers - emerging R&D businesses

As the proposed tax credit is non-refundable, this means that it is not going to be of immediate value, or of value at all, to businesses in loss, most likely to be emerging businesses that are in intensive growth phase and new start-ups. While these businesses could carry forward the R&D tax credits to a future tax year, the reality is that they will not receive the economic value of the incentives for several years, if ever, depending on when the business reaches profit at a level which can absorb the credits carried forward. This means that the credit may have no use for small R&D businesses.

We further comment on other aspects of the proposed tax credit that potentially limits its benefit to emerging R&D businesses.

i. *Forfeiture of tax credits on loss of continuity*

The Discussion Document raises the issue of whether shareholder continuity rules should apply to the R&D tax credits in the same manner as other credits. As discussed above, businesses going through R&D intensive phases are frequently in loss position due to the large investment required and consequently the ability for such businesses to utilise carried forward tax credits may not arise for a number of years. If shareholder continuity requirements are introduced these businesses may never be

able to use the credits due to the likelihood that they will undergo many rounds of equity investment (since debt funding is rarely an option).

This is a potential deterrent to not only future investment but for those businesses from engaging in R&D intensive activity in the first place. If NZ is to hold its own on the international stage and grow the knowledge economy (as the Government appears to be committed to doing), it simply cannot afford to disincentivise those emerging R&D businesses. It is important to note that NZ's medium and large R&D performing businesses would have been a start-up once. It is therefore important to ensure these businesses are supported to give them the most chance of success.

We therefore submit that in order for the proposed credit to encourage investment into R&D, the tax continuity provisions should not apply to the proposed incentive.

ii. *Cash is king*

We understand from the Discussion Document that the R&D tax credit will be non-refundable, as stated on page 23 of the document. We further understand from the document "Managing the transition from growth grants to the R&D tax incentive" (the Transition Document) that all Growth Grants will cease on 31 March 2020 with all businesses moving to the R&D tax credit from 1 April 2020.

For loss making businesses the R&D tax credit will be of no assistance from a cash flow perspective. We note on page 5 of the Transition Document the Government is "considering" implementing a temporary grant scheme from 1 April 2019 that mirrors the R&D Tax Incentive with the intention that this will provide support to businesses in a tax loss. However, it is unclear whether this is something the Government definitely intends to implement, whether a similar or better level of support will definitely be available from 1 April 2020, and it is also unclear whether businesses in a tax loss which do not currently have an active Growth Grant (for example because they already reached the end of their five year funding period) will be able to benefit from this temporary grant, if introduced.

In the table below, we have summarised the impact of the proposed R&D credit compared to the current Growth Grant and R&D tax loss credits. This is a simplified scenario but outlines the positions of many R&D focused start-ups that are typically cash poor when the business is focussed on investing in R&D and growth.

	Current Rules	Proposed R&D tax credit	Our observations
Revenue	$100,000	$100,000	
Expenses	($100,000	($100,000	
Deductible R&D expenditure	($1,000,000)	($1,000,000)	
Growth Grant – cashflow benefit	$200,000	Nil	
R&D tax loss	$800,000	Nil	
R&D tax loss credit at 28%	$224,000	Nil	

	Current Rules	Proposed R&D tax credit	Our observations
Total cashflow	$424,000	Nil	This cash flow helps invest in additional R&D
R&D tax credit at 12.5%		$125,000	This R&D credit will likely have no marginal impact to invest in additional R&D
Compliance costs	Moderate, but R&D definition based on NZ IAS 38 for Growth Grants and R&D tax loss credits is helpful	Potentially significant due to a new and archaic definition of R&D	Smaller businesses without resources to pay for specialist advice on how to apply the new R&D tax credit rules may choose to not utilise the R&D tax credit as this additional compliance cost will not have a cash return.

We note that the Discussion Document states the following in relation to loss-making businesses:

> *"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.*
>
> *Officials are undertaking further work to consider support for R&D businesses in tax loss and will consult with stakeholders as policy positions are developed. From April 2020, an appropriate policy incorporating additional features supporting businesses in tax loss will be introduced."*

This approach is unsatisfactory, as the Discussion Document does not provide details of the "complex" policy issues. This will create real uncertainty for businesses and investors. Businesses will genuinely ask, "what if the unknown but complex policy issues are not resolved by April 2020?"

We note that the Government appears to have some understanding of the complex policy issues to outline the removal of the Growth Grant regime, and also signal the removal of the R&D tax loss credit rules. In our view, the removal of the Growth Grants, and potentially the R&D tax loss credit rules must be considering the same "complex" policy issues. Which is, how does the Government best support the cashflow of R&D focussed loss-making businesses.

We recommend that the Government considers deferring the introduction of the R&D tax credit and maintaining the status quo for loss making businesses until the policy issues are articulated and resolved. Another approach would be to allow a refundable R&D tax credit but using a rate and a cap on the refundable amount, so that broadly, for loss making businesses there is no decrease in the amount of cashflow from Growth Grants and R&D tax loss credits.

As acknowledged by the Government on the introduction of the R&D tax loss cash out incentive in 2015, cash flow is vital to small start-ups and SMEs in general. This is especially the case where the new business has significant R&D expenditure in order to establish itself and add value in future years. The recent Australian R&D reforms note the critical nature of cash flow for starting businesses and provide up to $4m of cash refunds for R&D claimants with aggregated annual turnover less than $20m.

We further highlight that NZ is generally undercapitalised in relation to early stage investment. This means that actual cash support via grants or rebates is critical to leverage the very thin investment capital available to start-up companies to enable them to carry out R&D work. This point is emphasised in the Startup Genome Global Startup Ecosystem Report 2018[1] which noted that the global median conversion rate from Seed funding to Series A deals was 25% whereas NZ is well behind at circa 10%. This demonstrates how difficult it is for start-ups in NZ to get that first significant round of equity funding through the door.

In addition to the proposed incentive being non-refundable, the uncertainty surrounding the future of the current R&D tax loss cash-out incentive beyond 31 March 2020 is damaging to emerging R&D business and business confidence. This uncertain position means that businesses are unable to effectively forecast, budget and plan operations in advance, causing their own business activity to be uncertain. It also inhibits outside investors from having clear financial insights into the business and means that further (often necessary) equity investment may be called into question.

The problem of a lack of cash flow certainty is compounded by the cessation of Growth Grants, which have provided cash flow support to R&D businesses in the emerging/growth phases. We understand this has been decided by the Government on the basis that the Grants are "funding similar types of activity and have a similar purpose". However, although they are funding the same types of activity, the Grants and the proposed tax credit will operate in different ways that have different effects on the financial operations and abilities of R&D businesses. Our view is that they should be considered separately.

One other issue for emerging R&D business, in particular, will be the timing of cash flows. Currently, claims under a Growth Grant are processed quarterly which means many businesses are receiving 20% of the cash spend back within five to six months of the expenditure being incurred. If there is a move towards a tax return based claim system, any benefit will not be received by the business until at least three to four months post year end (the minimum time required for most businesses to prepare their financial statements and tax return) or possibly up to one year after year end if there are other matters that need to be resolved before the tax return can be filed (which may be two years or more since the expenditure was incurred).

The closing of applications for new Growth Grants by the end of the 2019 tax year and complete cessation of the Growth Grant scheme by the end of 2020, will cause even further cash flow uncertainty and strain for emerging R&D firms. The blow will be particularly harsh for R&D businesses with Growth Grants which have a date extending past 2020, as their Grant will be cut from 31 March 2020 and moved to the tax credit incentive scheme. As a result, businesses which previously had cash flow and an element of financial security now face uncertainty, causing further difficulty in planning and securing further cash investments. The feeling of "what will we do now" is likely to be shared amongst current Growth Grant recipients.

[1] https://startupgenome.com/all-report-thank-you/?file=2018

The uncertainty around what measures will be introduced from 1 April 2020 is likely to already be creating challenges for business decision makers. Most R&D businesses perform at least three years of budget forecasting and these changes will affect that third year from now. The impact is that the uncertainty may already be forcing R&D spend to slow today.

If the Government is going to provide real, effective support and certainty for emerging R&D active businesses and those otherwise in tax loss, it must introduce a mechanism for cash flow support to replace the Growth Grants immediately. Although there is a transition option for these businesses, the level of support is unclear (eg whether it will mirror the proposed tax credit at 12.5% or as per the rate for Growth Grants) and only for a year.

These challenges could largely be resolved by making the tax credit refundable. This should be introduced or signalled with clarity as soon as possible, so that businesses and investors alike are not "spooked" or discouraged from R&D spending and/or investment between now and 2020 (the proposed cash flow assistance review date and the end of Growth Grants).

Summary of submissions on rate and non-refundable nature of credit

Our R&D active SMEs in loss are of future value to the NZ economy and to the innovative reputation of NZ, as highlighted in the Discussion Document. This means that these businesses must be provided with support which allows these firms to grow into successful business. Cash support is particularly important as these businesses encounter a higher level of risk and find it harder to secure traditional sources of funding giving cash flow. They also spend longer periods in loss due to R&D intensive periods. We therefore strongly submit that the Government does not reduce cash support for start-up businesses undertaking R&D. In order to achieve this we submit:

- The Government should review the rate of the tax credit to bring it in line with the Growth Grant allowance level and take into consideration any tax loss cash out benefits
- The Government should review the refundable nature of the tax credit or ensure there is a cash flow assistance mechanism if the tax credit remains non-refundable
- The Government should consider the timing of cash flow assistance and whether there is a way to provide businesses with access to funding on a regular basis throughout the year, similar to the quarterly Growth Grant claim process
- The tax continuity provisions should not apply to the proposed incentive in order for the credits to be an incentive for businesses likely to encounter a shareholding change through increased equity funding.

3. *Proposed definition of R&D*

Proposed definition is too narrow

The Discussion Document notes that the proposed incentive is to have a broad reach across the NZ economy and that a "wider and more diverse range of firms will be able to access the tax incentive which will assist and encourage businesses of all sizes and scales to undertake R&D".

However, in its present form, our view is that the proposed definition of R&D contained in the Discussion Document does not lend itself to this aspiration, raising several concerns.

Prima facie, the proposed definition of R&D does not appear to be as "robust and practical" as the Government has intended.

Specifically, terms such as "scientific method", the requirement that the R&D activities are performed with the intention to "advance science or technology through the resolution of scientific or technological uncertainty" and the need to address a "material problem" resulting in a "material advance in science or technology" is, in our view, overly narrow and archaic.

The result of such a narrow definition will mean the proposed tax credit may only apply to a limited set of R&D activities and would greatly undermine the effect of the incentive.

Potential refinements to the definition

We outline below potential refinements to the proposed definition.

In our view, there is merit in maintaining consistency with the NZ IAS 38 definition of R&D for the proposed R&D tax credit incentive. We note that this NZ IAS 38 definitions of "research" or "development" are currently used for the R&D in the Income Tax Act 2007 (for the R&D tax loss credit, and the R&D deduction deferral rules), and forms the starting point for the definition of eligible R&D for Growth Grant purposes. We discuss this further in the context of additional compliance costs later.

The definition of "scientific method" needs to be used in a broad sense to cover an expansive definition of science, to include "computer science" (including algorithmics and design patterns) and mathematics used in technology creation. However, we recognise that further refinement is required to ensure the term "scientific" is not overly broad, it may be a better approach to define science to include specific other scientific discipline variations which the Government will be able to identify through the submission process.

In addition, we submit that clear and comprehensive guidance as to the scope of the definition will be necessary, ideally with specific industry examples. This is particularly important so that businesses are able to apply the definition easily without incurring significant costs in order to access the incentive.

We further submit that the use of the phrase "resolution of scientific or technological uncertainty" should be altered to reflect that some scientific and technological research could target a specific outcome or product.

The Discussion Document also comments that the tax credit should be available for solving problems that have not already been solved. It is important to note that it is possible businesses are attempting to solve the same issue but through an improved method, or in a different manner which is of benefit to a different demographic or consumer group for example. We also note that the UK R&D tax credit guidelines[2] state, within the discussion on the meaning of "advance in science or technology" that a project which seeks to "*.....use science or technology to duplicate the effect of an existing process, material, device, product or service in a new or appreciably improved way (ie a product which has exactly the same characteristics as existing models, but is built in a fundamentally different*

[2] Guidelines on the meaning of Research and Development for Tax Purposes, Department of Business, Innovation and Skills, March 2004.

manner)...." will be R&D, demonstrating that this issue has been considered and accepted by other jurisdictions with well established R&D tax incentives.

We submit that the wording of the definition should be changed to reflect this.

The proposed definition does not suit software development

The Discussion Document notes the importance of software development businesses to the NZ economy.

As mentioned above, our view is that the proposed definition is too narrow, and it is particularly difficult to apply in the context of software development, app development or other similar technological advancing products. Specifically, such activity generally –

- does not use a traditionally scientific method;
- does not solve an uncertainty (ie is targeted at a specific creation or result);
- does not address a material problem (despite the fact that it may assist people in carrying on their daily lives).

In our view, it would be difficult for such research and development activities to fit within the proposed definition. We therefore support the indication put forward in the Discussion Document for a different definition to apply to software development.

We stress again the importance of getting the definition right for software development, especially as our main R&D emerging businesses are not carrying out strictly scientific work but are in the software area.

4. Compliance costs

Costs associated with establishing eligibility

Under the current R&D incentives (Growth Grants and the R&D tax loss cash-out), the same definition of R&D is applied across the board and is consistent with the definition of R&D for financial reporting purposes. This results in efficiency savings as businesses need only consider their R&D activities and expenditure once for the purposes of determining how costs should be treated for R&D incentives and financial reporting purposes. We are concerned that the introduction of a different definition for R&D tax credit purposes will significantly increase the amount of internal and external resources required for R&D businesses to establish eligibility and identify qualifying expenditure.

We therefore submit that further consideration should be given to retaining the NZ IAS 38 definition of R&D for the proposed R&D tax credit incentive.

Should the Government decide that it still wishes to implement an alternative definition, we submit that the costs associated with establishing eligibility and identifying qualifying expenditure, whether internal or external, should be specifically included in qualifying expenditure for R&D tax credit purposes.

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Application costs

We understand the need for integrity measures to ensure that funding received by R&D businesses is appropriate and fair, and that valuable resources are not exploited to the detriment of the economy as a whole. We are also pleased that the Government recognises the need for increased certainty for taxpayers as the availability of R&D incentives forms a key part of the decision process around budgeting, cash flow management, business strategy and investment needs.

We are, however, concerned that the correct balance between compliance and claim integrity is achieved. Emerging R&D intensive businesses, in particular, generally have limited internal resources in relation to financial management with a small number of individuals dealing with everything from the annual report to payroll and debtor management. We would be concerned if a high compliance burden, in terms of level of detail and supporting documentation, was levied on such businesses, especially in light of the fact claims made by such businesses are likely to be towards the lower end of the spectrum in terms of dollar amount. Such a burden would likely act as a deterrent to submitting a claim for many resource poor R&D businesses.

These businesses may also have insufficient resources to employ external advisors to assist with the claim process and, as such, it becomes even more important that appropriate guidance on the definitions of R&D and qualifying expenditure is provided to assist these businesses to make an accurate and valid claim from the outset.

Conversely, we accept that it seems appropriate that claims for larger amounts, especially those nearing the maximum funding of $15m per annum, should be subject to a greater degree of scrutiny and require a greater degree of support (although we note that larger claimants are likely to have more internal resources and/or be in a position to engage external advisors to assist with the claim process so we would expect the information provided to be of a high level of integrity).

We therefore submit that a scaled approach depending on the quantum of the claim is applied to the level of information required to support a claim, together with the level of integrity measures applied post submission of a claim. For example, it may be appropriate to have simplified process for those claims under a certain threshold, say $2m of R&D expenditure.

We also submit that it may be helpful to taxpayers for a summary of frequently asked questions and common errors to be published on a regular basis, especially during the initial introduction period of the tax credit.

Assessment and dispute process

It is unclear from the discussion document exactly how the Government will approach the assessment of claims, however, we would stress the importance of Inland Revenue engaging with competent professionals in the relevant fields. While we appreciate that guidance will be provided to taxpayers in relation to qualifying and non-qualifying R&D, in many cases a degree of judgement will be required and Inland Revenue officials may not have sufficient subject matter experience to make an informed decision. If legitimate claims are protracted or rejected due to insufficient industry knowledge on the part of Inland Revenue, this will result in significant frustration amongst taxpayers and would be damaging to the R&D tax credit incentive, especially if businesses incur costs in relation to external advisors to assist with challenges by Inland Revenue.

We therefore submit that careful consideration should be given to how claims will be assessed by Inland Revenue and what expert resources they will have to draw on, as well as providing guidance to taxpayers on how to proceed if they disagree with the view taken (be it through the normal disputes process or a tailored mechanism specific to the R&D tax credit).

General

We thank you again for the opportunity to comment. Please let us know if you would like to discuss our submissions further.

Yours sincerely

s 9(2)(a)

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Re: R&D tax credit incentive Discussion Document
C/- Deputy Commissioner, Policy and Strategy
Inland Revenue Department
PO Box 2198
Wellington 6140

1 June 2018

Fuelling Innovation to Transform Our Economy, Discussion Document – supplementary submission

Dear Madam

In addition to our joint submission with Angel Association New Zealand and New Zealand Venture Investment Fund, we also make the following supplementary submissions on behalf of PwC.

Calculation of eligible expenditure

Direct and indirect specific costs

We acknowledge the observations made in the Discussion Document that adopting a 'labour costs only' approach to eligible expenditure would be the simplest approach and, for many industries, would capture the majority of costs incurred in relation to the R&D process. We also appreciate the acknowledgment that the rate of tax credit applied would need to be higher if such an approach was adopted to compensate for the smaller base of eligible expenditure.

This approach would work well for industries such as software development, however, we are concerned that such an approach would negatively impact certain industries such as hi-tech manufacturing, where there may be high non-labour related costs in relation to items such as consumable materials, prototype build costs or depreciation of high value, R&D specific, plant and machinery.

We presume there would be no obligation for a R&D business to claim all possible costs. As such, for those businesses where labour represents the vast majority of expense, and have limited internal resources available to compile a claim, they would presumably be free to limit their claim to labour costs only and would be at no significant disadvantage. On this basis, we therefore submit that while it may present a more complex calculation for certain industries, in the interests of encouraging growth in R&D across the board, eligible expenditure should be calculated based on the actual costs directly attributable to the R&D work.

From a practical standpoint, many companies will have already identified these costs in the course or preparing their financial statements. Where taxpayers account for their R&D costs in accordance with NZ IAS 38 we further submit that those costs identified as R&D in accordance with the accounting standard should form the basis for the R&D tax credit application. This will help reduce compliance costs for many resource constrained taxpayers, freeing up more funds to invest in R&D.

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Overheads

For the same reasons as outlined above, in our view R&D businesses should not be restricted to claiming overhead costs based solely as a set percentage of R&D labour costs. To do so would unfairly disadvantage certain industries which may have low labour costs but may incur high premises or utilities costs. In our view taxpayers should be permitted to adopt a reasonable approach to calculating overheads based on their particular business. For many, apportionment based on R&D labour as a proportion of total labour will be a fair representation, but taxpayers should be free to choose another reasonable basis (such as floor area od R&D areas versus non-R&D areas for example) if this provides a better reflection of the cost of carrying out the R&D.

We therefore submit that overheads should be apportioned on a reasonable basis by the taxpayer and not calculated as a set percentage of direct R&D labour costs. Again, for those taxpayers accounting in accordance with NZ IAS 38, the allocation of overheads to R&D calculated for financial reporting purposes should be permitted to be used for purposes of the R&D tax credit application.

R&D carried out for commercial consideration

We appreciate the Government's desire to incentivise, via the R&D incentive, R&D that might not otherwise be carried out. We therefore understand the concern in relation to funding R&D activities where the business carrying out the R&D bears no financial risk of the R&D activity as this is R&D which is likely to have been carried out without the benefit of a tax incentive. In these situations the party commissioning the work (ie the party that does bear the financial risk) is the one that may require support in the form of the R&D tax credit incentive in order to reduce the financial risk to a point where they are able to proceed with the project from a business perspective.

However, we disagree with the need to extend this to situations where any form of commercial consideration is received or might reasonably be expected to be received. No business carries out R&D without the anticipation that they will receive a commercial return for their R&D efforts eventually, so arguably any business carrying out R&D can be said to be reasonably expecting to receive commercial consideration. As such we struggle to envisage the situations the Government is anticipating which would require the application of such a rule to prevent mischief but without excluding almost all claimants.

We therefore submit that the 'at risk' rule should be retained in its previous form, without the proposed extension to any form of commercial consideration. If the Government is still concerned about businesses structuring arrangements such that they, prima facie, bear the financial risk but in reality do not, this could be achieved by other means such as excluding expenditure where the cost is met by a third party, or excluding claims by organisations 'in the business' of conducting R&D (ie where carrying out R&D for third parties in return for consideration is the trade of the business).

Exclusion of SOEs, Crown Research Institutes, DHBs, Tertiary Institutions and their subsidiaries

We can understand the policy decision behind excluding SOEs, Crown Research Institutes, DHBs and Tertiary Institutions from claiming the R&D tax credit incentive where these organisations are fully Government owned. To do so would simply create a merry-go-round of cash whilst using up valuable Inland Revenue resources to process the claim in the interim.

However, it appears to be suggested in the Discussion Document that entities under the control of such organisations may also be excluded from qualifying for the R&D tax credit, despite having a significant private ownership component (and in some cases these entities are listed companies). We do not agree with excluding such mixed ownership entities from the scope of the R&D tax credit as they are operating and trading in the market similarly to 100% privately held companies. As such they are under similar financial pressures to 100% privately owned businesses which puts similar pressures on their ability to invest in R&D. In our view, excluding mixed ownership entities from the R&D tax credit incentive would be counteractive to the Government's goal of increasing business R&D in NZ.

To exclude these companies also puts them at an unfair disadvantage as it effectively increases the cost of R&D when compared with their competitors in the market. This has a knock on impact on their ability to compete, their financial performance and, ultimately, their share price.

We therefore submit that entities controlled by a SOE, Crown Research Institute, DHB or Tertiary Institution, but under partial private ownership, should be included in the R&D tax credit incentive.

Transparency measures

We are in agreement with the Government's proposal to publish certain information in relation to R&D support received, in much the same way as it is currently for Callaghan Innovation grant funding, however, it is essential it is done is such a way as to preserve commercially sensitive information.

At present, the names of recipients of Growth Grants are published on the Callaghan Innovation website together with the name of the project and the start/end date of the grant. No amounts of funding are disclosed and in our view disclosing this information is unnecessary. In particular, we do not understand how knowledge of the amount claimed will assist with ensuring integrity, in addition to the other features in the tax system to ensure integrity and compliance.

We are able to see the value in providing specific information to Treasury, Callaghan Innovation and MBIE officials and do not object to this proposal. However, we are unable to determine from the Discussion Document what level of detail will be included in the Stats NZ Longitudinal Business Database and the National Research Information System so cannot comment further on this. We however stress the importance of making this information clearly available to taxpayers (once decided) so that they are fully aware prior to making a tax credit claim.

We therefore submit that only the names of R&D tax credit claimants, and in a similar manner to that used by Callaghan Innovation, are published. If the Government does insist on publishing details of amounts claimed, the bands used to disclose the amounts should be very broad, for example under $5m support, $5m-$10m and over $10m.

Penalties

We are concerned at the suggestion in the Discussion Document that penalties, in particular the promoter penalty rules, may be extended to advisors who have operated on a contingent fee basis and the R&D tax credit application demonstrates a serious offence.

Many R&D businesses, especially emerging high growth businesses with limited internal resources, will be dependent on external advisors to assist with the application process. We note that the proposed R&D tax credit rules has a different definition of R&D than the definitions used for financial

reporting and Growth Grant purposes. We will expect that many businesses will need external advisors to help them comply with the proposed R&D tax credit rules.

At the same time, especially if the business has not previously received grant funding, there will be a degree of uncertainty around whether an application will be accepted (as they may be unclear whether the R&D work carried out will qualify). As such, many emerging R&D businesses will be reluctant to commit to a fixed fee for preparing and submitting an application and only be prepared to proceed if a fee is contingent on success. As outlined in our joint submission with Angel Association New Zealand and New Zealand Venture Investment Fund, many R&D focussed businesses are cash constrained and would see contingent fee arrangements as a sensible way to create an alignment of interests with their external advisors.

When assisting with a R&D tax credit application, either fixed fee or contingent, advisors will be heavily dependent on the client to use their judgement to determine the correct amount of expenditure to include as R&D. While the advisor will be able to provide advice in relation to which activities may meet the definition of R&D for tax credit purposes, and may be able to provide guidance in relation to the types of expenditure which may be claimed, it rests almost exclusively with the client to determine exactly which costs and what proportion of employee salaries can be included.

The taxpayer will have a far greater incentive to inflate the claim than the advisor (as the advisor fee will only be a small percentage of the value of the claim), and if a claim is inflated by the client, it is entirely possible the advisor will be unaware of this.

In our view the level of incremental fees an advisor would benefit from as a result of an inflated claim are very unlikely to make it worth risking their professional reputation and relationship with Inland Revenue. Imposing promoter penalties will increase the likelihood that advisors become reluctant to offer a contingent fee basis, which may mean certain R&D businesses are discouraged from claiming the tax credit, as they cannot afford to commit to a fixed fee when they are uncertain an application will be successful.

We therefore submit that penalties should not be extended to advisors who have operated on a contingent fee basis.

General

We thank you again for the opportunity to comment. Please let us know if you would like to discuss our submissions further.

Yours sincerely

s 9(2)(a)

[redacted]