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Regular commentary from our experts on topical tax issues

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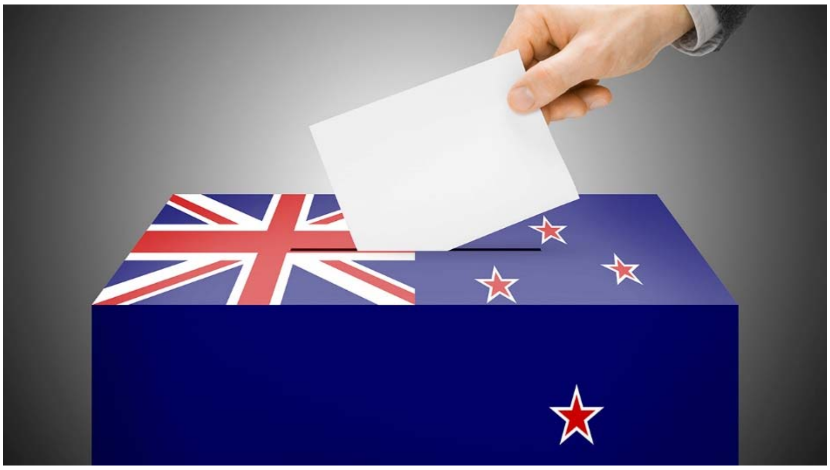

Government to (re)introduce R&D tax credits

Snapshot

The new Government has committed to the re-introduction of a 12.5% R&D tax credit. Practically, it is probable that the start date for the new regime will be 1 April 2019.

In all likelihood, the current Callaghan Innovation R&D Growth Grant will be wound down as a consequence. However, from a delivery standpoint, we believe that Callaghan Innovation is well placed to undertake technical reviews of R&D tax credit claims, rather than Inland Revenue recruiting scientists, engineers and technical specialists as they did in 2008/2009.

Though we welcome the Government's refreshed focus on the tools available to support innovative businesses, we recommend that the new R&D tax regime have broad political support to avoid another wholesale overhaul if there is a future change of government.

As it is likely another year before any new legislation takes effect, and the current R&D funding continues to be available, businesses should reflect on their eligibility for assistance and internal processes for documenting R&D activities.

The new Government has confirmed its pre-election pledge of a 12.5% R&D tax credit

However, the legislative process will take time. We expect a 1 April 2019 start date at the earliest

Business should be thinking about documenting its R&D activity and spend. Further, existing R&D grants should not be overlooked

Contact us

Gwen Riley
National R&D Lead Partner
T: +64 27 555 4936
E: gwenanriley@kpmg.co.nz

Byran Theunisen
Senior Manager
T: +64 27 579 7930
E: btheunisen@kpmg.co.nz

The 2017 Election

Currently, NZ companies invest less in R&D than the OECD average. It has been the goal of past and present governments to fix this.

To that end, government has generally sought to stimulate business investment in innovation through a broad ecosystem of support, with R&D funding being one critical and high profile lever.

Currently, that support is delivered through Callaghan Innovation business grants, drawn from a pool of funds expanded since the abolition of the 2008/2009 R&D tax credit.

In its 2017 election campaign, the Labour Party promised the re-introduction of a 12.5% R&D tax credit (reduced from the 2008/2009 rate of 15%). In the months since the election, Ministers have signalled a commitment to follow through on that promise.

Expected changes

Timing

Given the practicalities of introducing, passing and implementing legislation, it is highly likely that the start date for the new regime will be 1 April 2019 for standard balance dates (that is, tax years ending 31 March 2020). It remains to be seen whether companies with early balance dates will be brought into the 1 April 2019 start – if not, their first year of eligibility will follow in the subsequent period.

Bearing in mind these time frames, it also appears that the framework will be relatively simple, borrowing large tracts from the 2008/2009 legislation. Thereafter, remedial legislation, The Tax Working Group process, and the 2020 election will be opportunities for further refinement.

Based on past experience with the 2008/2009 R&D tax credit regime, and recent Callaghan Innovation Growth Grants, it is likely that various safeguards will be implemented to provide Government with a greater degree of control.

Delivery

From a delivery stand point, in gearing up for the 2008/2009 tax credit, Inland Revenue recruited technical specialists (e.g. scientists, engineers, academics) to review the technical merits of claims. This time around, we suggest that Inland Revenue not go down this path, particularly in light of its current Business Transformation priorities. Rather, given the existing Callaghan Innovation infrastructure, we suggest that the technical review be undertaken therein. This is particularly as, in all probability, Callaghan Innovation's Growth Grant program will be wound down as the R&D tax credit regime is implemented so there is a natural fit.

In a similar vein, from Government's broader efforts to support the innovation ecosystem, we believe Inland Revenue should play a more "policy and purse strings" role, with Callaghan Innovation providing the service delivery. Inland Revenue will have access to significant data on which businesses are in growth mode and, based on data analytics, Callaghan Innovation will be able to target specific businesses to offer additional support such as training, scholarships, technical contacts and the other range of services within their existing toolkit.

This data driven intra-government approach has the potential to also extend to the wider support ecosystem, such as New Zealand Trade and Enterprise targeting businesses to encourage and support export-growth, and the Ministry of Business, Innovation and Employment to support training and employment.

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Gwen Riley
National R&D Lead Partner
T: +64 27 555 4936
E: gwenanriley@kpmg.co.nz

Byran Theunisen
Senior Manager
T: +64 27 579 7930
E: btheunisen@kpmg.co.nz

The long term view

Though the comments so far paint a fairly aspirational outlook, it is important to stay grounded in the reality of any new government program. Businesses will be cautious of investigating time and energy in any program which will likely have a short shelf-life. The recent experience of ping-ponging between tax credits and grants depending on which Party is in power may draw some scepticism.

Therefore, for the Government's R&D tax credit to have sustainability, it is essential that this initiative is balanced and has broad political support.

What you need to do

R&D Grants

As it is likely another year before R&D tax credits subsume Growth Grants, businesses should reflect on whether they may be eligible for Growth Grants, particularly as loss-making companies are still eligible for grants but may not be able to cash out their tax credits.

Recording R&D generally

Governments have tended to favour some type of R&D incentive, so recording R&D generally is good practice to access whatever form the support happens to take.

Please contact your normal KPMG advisor, or the team below, if you would like further information or your company needs assistance in the areas discussed.

We will provide further updates as more information is released.

For further information

Gwen Riley
National R&D Lead Partner
Phone: +64 27 555 4936
Email: gwenanriley@kpmg.co.nz

Byran Theunisen
Senior Manager
Phone: +64 27 579 7930
Email: btheunisen@kpmg.co.nz

kpmg.com/nz
twitter.com/KPMGNZ