

# Research & Development

## Tax Incentive vs. Growth Grant



Measure/Criteria	Growth Grant	R&D TI	Comment/Rationale
<b>Grant / Incentive Purpose</b>			
<b>Encouraging a wide range of businesses to perform/increase R&amp;D</b>	★★★	★★★★	<p>R&amp;D TI has a lower R&amp;D spend eligibility threshold at \$50,000pa vs the Growth Grant \$300,000 over the preceding 2 years.*</p> <p>The Growth Grant applicant eligibility requirements are limited to companies, limited partnerships and specific Māori entities.</p> <p>The R&amp;D TI entity eligibility criteria is more broad, requiring a fixed establishment in New Zealand.</p> <p>* <i>The Growth Grant has a transitional mechanism that allows some businesses to avoid the requirement noted above. Such entry requires \$300,000 eligible R&amp;D spend within 12 months of entering the Growth Grant scheme.</i></p>
<b>Instrument Coverage – Eligible Costs</b>			
<b>Wide coverage of typical R&amp;D costs</b>	★★★★	★★★★	<p>Notwithstanding the different definitions of eligible R&amp;D, the Growth Grant and R&amp;D TI cover similar costs for most businesses.</p> <p>The differences that may apply to some businesses are the R&amp;D TI inclusion of:</p> <ul style="list-style-type: none"> <li>- a higher maximum claim (\$120 mill vs \$25 mill);</li> <li>- includes costs for capitalised intangible assets;</li> <li>- allows up to 10% overseas costs with total claim.</li> </ul>
<b>Application/Administrative Processes</b>			
<b>Ease of application</b>	★★	?	<p>The Growth Grant application process is relatively simple – though the business due diligence hurdle has created issues for some applicants – specifically young technology/R&amp;D rich entities.</p> <p>The in-year approval requirements for the R&amp;D TI (for &lt;\$2 mill pa eligible R&amp;D spend) are yet to be provided by IRD.</p> <p>The R&amp;D TI year-end requirements for Significant R&amp;D Performers (ie &gt;\$2 mill pa eligible R&amp;D spend) are to be advised – though are expected to be similar to the Growth Grant.</p>
<b>Compliance – Changes in:</b> - Ownership - Governance - Snr Management	★★★★		<p>The Growth Grant funding agreement's Change Event clauses specify changes in ownership, governance, and senior management as grounds for suspending funding.</p> <p>The R&amp;D TI does not include this attribute.</p>
<b>Compliance</b> - Off-shore owned entities	★★★★		<p>An introduced operational requirement of the Growth Grant requires recipients majority owned by off-shore parent companies to provide a parent company guarantee – that in the context of claims/payments being retrospective, is considered unnecessary.</p> <p>The R&amp;D TI does not include this requirement.</p>

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<b>Clarity and Certainty of R&amp;D Definition</b>			
<b>Readily understood definition of R&amp;D</b>	★★	★★★	<p>The R&amp;D TI definition of R&amp;D is viewed as more readily understood by business.</p> <p>NZIAS38 is not readily understood (or applied) by many businesses.</p>
<b>Certainty of eligibility of R&amp;D</b>	★★	★★★	<p>The R&amp;D TI's in-year approval requirements can offer less sophisticated businesses with R&amp;D eligibility certainty.</p> <p>The in-year approval process will utilise the expertise of Callaghan Innovation.</p> <p><b>Note:</b> IRD is required to liaise with applicants if it has questions on R&amp;D – before declining application.</p> <p>Within the Growth Grant, weak understanding of NZIAS38 and eligibility of some R&amp;D costs can lead to tension between the recipient and Review Certifier.</p> <ul style="list-style-type: none"> <li>- i.e. Review Certification exercise can result in unexpected reductions in eligible R&amp;D spend.</li> </ul>
<b>Ease/speed of Claims</b>			
<b>Claim ease and frequency</b>	★★★	★★	<p>The Growth Grant provides for quarterly payments payable in fortnightly cycles + year-end wash up of 10% retention.</p> <ul style="list-style-type: none"> <li>- Over-claims/payments are addressed in year-end process (with no penalties applied).</li> </ul> <p>The R&amp;D TI is a year-end claim process, though there may be scope for provisional tax adjustments. Penalties related to provisional tax payments will still apply.</p>
<b>Cashflow /Refundability</b>	★★★	★	<p>As noted above, Growth Grants are claimed on a quarterly basis, and paid on fortnightly frequency.</p> <p>Payment of Growth Grant claims are not based on an entity's tax liability status.</p> <p>Year One of the R&amp;D TI has a limited refundability facility – only suitable for some entities (typically R&amp;D intensive start-ups).</p> <p>From Year Two the proposal is for pre-profit/loss making entities to access a refund facility – capped at the total amount of payroll tax paid in the same year.</p>

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Definition of R&D	
<b>Growth Grant from Ministerial Direction - Direction to Callaghan Innovation – Criteria for Assessing Proposals for Growth Grant Funding</b>	<p><b>Definition of Eligible Research and Development Expenditure for R&amp;D Project Grants (sic)</b></p> <p>Eligible R&amp;D expenditure is defined as those meeting the New Zealand Equivalent to International Accounting Standard 38 (NZ IAS 38) definition of research and development and expensed under that standard.</p> <p>The NZ IAS 38 definitions of R&amp;D are:</p> <p>Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.</p> <p>Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.</p> <p><b>Clarifying Principle</b></p> <p>If necessary, when seeking to distinguish R&amp;D from non-R&amp;D, the further advice provided by the New Zealand Financial Reporting Standard 13 (NZ FRS 13) should be applied:</p> <p>R&amp;D is distinguished from non-R&amp;D by the presence or absence of an appreciable element of innovation. If the activity departs from routine and breaks new ground it is normally R&amp;D; if it follows an established pattern it is normally not R&amp;D.</p> <p><b>General Exclusions</b></p> <p>The following types of expenditure are not eligible for the R&amp;D Growth Grants initiative:</p> <ul style="list-style-type: none"> <li>- Any expenditure that is capitalised as an intangible asset under NZ IAS 38;</li> <li>- R&amp;D undertaken outside of New Zealand;</li> <li>- R&amp;D funded through an enforceable levy paid by another entity;</li> <li>- enforceable levies for R&amp;D paid to another entity; and</li> <li>- any R&amp;D funded by a grant or other payment provided by an entity that is not part of the same consolidated group of entities as the applicant.</li> </ul>
<b>R&amp;D Tax Incentive From Taxation (Research and Development Tax Credits) Act 2019</b>	<p><b>LY 2 Key terms</b></p> <p>Meaning of core research and development activity</p> <p>(1) Core research and development activity—</p> <p>(a) means an activity that—</p> <ul style="list-style-type: none"> <li>(i) is conducted using a systematic approach; and</li> <li>(ii) has a material purpose of creating new knowledge, or new or improved processes, services, or goods; and</li> <li>(iii) has a material purpose of resolving scientific or technological uncertainty; but</li> </ul> <p>(b) does not include an activity, if knowledge required to resolve the uncertainty, described in paragraph (a)(iii), is—</p> <ul style="list-style-type: none"> <li>(i) publicly available;</li> <li>(ii) deducible by a competent professional in the relevant scientific or technological field; and</li> </ul> <p>(c) does not include an activity to the extent to which it is performed outside New Zealand; and</p> <p>(d) does not include an activity to the extent to which it is described in schedule 21, part A.</p> <p>Meaning of research and development activity</p> <p>(2) Research and development activity, for a person, means an activity that is—</p> <ul style="list-style-type: none"> <li>(a) a core research and development activity;</li> <li>(b) a supporting research and development activity.</li> </ul> <p>Meaning of supporting research and development activity</p> <p>(3) Supporting research and development activity—</p> <ul style="list-style-type: none"> <li>(a) means an activity that has the only or main purpose of, is required for, and integral to, conducting a person's core research and development activity; but</li> <li>(b) does not include an activity to the extent to which it is described in schedule 21, part B.</li> </ul>