

# 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 preceeding 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 \$25mill);</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;\$2mill 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;\$2mill 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> <ul style="list-style-type: none"> <li>- Ownership</li> <li>- Governance</li> <li>- Snr Management</li> </ul>		★★★★★	<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> <ul style="list-style-type: none"> <li>- Off-shore owned entities</li> </ul>		★★★★★	<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 – <i>before</i> 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

**Growth Grant from Ministerial Direction - Direction to Callaghan Innovation—Criteria for Assessing Proposals for Growth Grant Funding**

#### **Definition of Eligible Research and Development Expenditure for R&D Project Grants (sic)**

Eligible R&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.

The NZ IAS 38 definitions of R&D are:

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

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.

#### **Clarifying Principle**

If necessary, when seeking to distinguish R&D from non-R&D, the further advice provided by the New Zealand Financial Reporting Standard 13 (NZ FRS 13) should be applied:

R&D is distinguished from non-R&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&D; if it follows an established pattern it is normally not R&D.

#### **General Exclusions**

The following types of expenditure are not eligible for the R&D Growth Grants initiative:

- Any expenditure that is capitalised as an intangible asset under NZ IAS 38;
- R&D undertaken outside of New Zealand;
- R&D funded through an enforceable levy paid by another entity;
- enforceable levies for R&D paid to another entity; and
- any R&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.

**R&D Tax Incentive From Taxation (Research and Development Tax Credits) Act 2019**

#### **LY 2 Key terms**

Meaning of core research and development activity

(1) Core research and development activity—

(a) means an activity that—

(i) is conducted using a systematic approach; and

(ii) has a material purpose of creating new knowledge, or new or improved processes, services, or goods; and

(iii) has a material purpose of resolving scientific or technological uncertainty; but

(b) does not include an activity, if knowledge required to resolve the uncertainty, described in paragraph (a)(iii), is—

(i) publicly available:

(ii) deductible by a competent professional in the relevant scientific or technological field; and

(c) does not include an activity to the extent to which it is performed outside New Zealand; and

(d) does not include an activity to the extent to which it is described in schedule 21, part A.

Meaning of research and development activity

(2) Research and development activity, for a person, means an activity that is—

(a) a core research and development activity;

(b) a supporting research and development activity.

Meaning of supporting research and development activity

(3) Supporting research and development activity—

(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

(b) does not include an activity to the extent to which it is described in schedule 21, part B.