

# The Treasury

## Budget 2018 Information Release

### Release Document August 2018

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[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



**THE TREASURY**  
Kaitohutohu Kaupapa Rawa

Reference: T2018/76

SH-13-5

Date: 18 January 2018

To: Minister of Finance (Hon Grant Robertson)

Deadline: 22 January 2018

## **Aide Memoire: Research and Development Tax Credit – Briefing for Ministers Discussion**

This note is to support discussion with the Minister of Research, Science and Innovation and the Minister of Revenue on the Research and Development (R&D) Tax Credit (the Credit).

Your office has requested an outline of the main decisions required to implement the Credit. These decisions can be grouped as objectives, timing and design. Objectives need to be considered first, as these influence decisions on timing and design. Timing will be agreed by Cabinet in February 2018. Following this decision, Ministers will need to make design choices. If Cabinet chooses a 2019 implementation date, Ministers will need to make design decisions urgently for public consultation to occur in March.

### **Objectives**

The first consideration is the Credit's objectives, and its role in helping the Government reach its target of increasing R&D expenditure to 2% of GDP. The attached diagram shows how a Tax Credit would fit into the wider innovation system and how it links to the Government's wider economic strategy. Decisions around objectives will impact these key considerations:

1. Targeting: There will be trade-offs between targeting different types of R&D, and the complexity of the Credit. One option is to introduce a broad based credit and use other mechanisms, such as grants, to target particular types of R&D.
2. Interactions with:
  - a. The current grant system
  - b. The tax system
3. Cost: Ministers will need to consider the trade-off between incentivising R&D and higher fiscal cost. This will impact the scope of the Credit.

### **Timing**

In December 2017, Ministers requested a Cabinet paper on options and timing of the Credit. You will receive a draft Cabinet paper by 25 January 2018, for Cabinet consideration in February 2018.

This paper will ask for a decision on the following timing options:

- 2019 – more heavily based on the 2008 Credit (higher fiscal risk and higher risk of not achieving the Credit's objectives).
  - i. implementation based on the 2008 Tax Credit
  - ii. initial implementation based on the 2008 Tax Credit with incremental addition of design features
- 2020 - newer policy, less fiscal risk, longer wait for businesses
  - i. 2020 implementation
  - ii. 2020 implementation with interim adjustments to the R&D grant system

### **Design**

You will receive a draft Discussion Document for consultation on design choices in February 2018. Design choices will include:

- Rate of the Credit
- Volume vs incremental approaches
- Loss making firms
- Minimum and maximum expenditure threshold
- R&D definition
- Excluded activity and/or sectors
- R&D conducted overseas
- Interaction with grants and the tax loss cash-out
- Transitional arrangements
- Record keeping requirements
- Transparency

### **Consultation**

Inland Revenue, the Ministry of Business, Innovation and Employment and Callaghan Innovation have been consulted on this note.

### **Next Steps**

- We recommend you forward this note on to the Ministers of Research, Science and Innovation and Revenue.
- We recommend you initiate regular meetings with the Ministers of Research, Science and Innovation, and Revenue to ensure views are aligned before making recommendations to Cabinet. Officials will provide further advice to support this.

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The below diagram provides context for where an R&D tax credit sits within wider Government objectives.

## Introducing a Research and Development (R&D) Tax Credit

