R&D Tax Incentives: New Zealand, 2018

**Design features**

New Zealand reintroduced R&D tax relief in 2015 through a volume-based R&D tax credit which allows companies in a tax loss position to earn a refund for deficit-related R&D expenditures.

- Companies receive tax credits corresponding to 28% of any deficit related to R&D expenses.
- A ceiling applies on the amount of refundable tax credits.
- Companies must fulfil R&D wage intensity and corporate eligibility criteria to be eligible for support.
- Cashed out payments should be repaid and the corresponding losses must be reinstated.

| Table 1. Main design features of R&D tax incentives in New Zealand, 2018† |
|---------------------------------|---------------------------------|
| **Type of instrument** | **Tax credit for research and development tax losses** |
| Eligible expenditures† | Current, land and buildings |
| Headline rates | 28 (equivalent to corporate income tax rate) |
| Refund | Yes (deficit related R&D expenses only) |
| Carry-over (years) | No |

R&D tax relief

Ceiling: R&D tax relief (Refund-specific)

The smallest of:
- NZD 1.4 million multiplied by the CIT rate;
- company’s net loss for the year multiplied by the CIT rate;
- company’s R&D expenditure for the tax year multiplied by the CIT rate;
- company’s R&D labour expenditure for the year, multiplied by 1.5 and by the CIT rate.

The cap increases by 300,000 each year. In tax year 2020-2021, the cap will be maintained at NZD 2 million. The cashed out payments should be repaid (and corresponding losses reinstated).

CIT: Corporate Income Tax. 1 NZD = 0.67 USD, 31.12.2018

For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief


**Recent developments and trends**

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in New Zealand is estimated at -0.02 (-0.02), much smaller than the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to -0.02 (-0.02), in the profit (loss)-making scenario, well below the OECD median of 0.13 (0.10).

New Zealand temporarily experimented with a refundable R&D tax credit in 2008. This drives a one-off increase in the implied R&D tax subsidy rate time-series. In 2008, the tax subsidy estimated for an SME and large firm in the profit (loss)-making scenario was equal to 0.19 (0.19). In 2015, New Zealand reintroduced R&D tax incentives in the form of a tax credit for research and development tax losses, which foresee a reinstatement of baseline tax deductions for eligible R&D expenditure (current, land and buildings) in the loss-making case. The implied marginal tax subsidy rates of profitable and loss-making firms derived from this provision are still effectively zero. The government of New Zealand is considering the introduction of a new R&D tax credit in 2019. The proposed tax credit foresees a comparatively larger cap (NZD 120 million) on eligible expenditures and no R&D intensity threshold.

**Figure 1. Evolution of the generosity of the tax incentive: New Zealand, 2000-18**


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/sti/rd-tax-stats-methodology.pdf and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-stats-methodology-notes.pdf.
Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)
As a percentage of GDP

- **New Zealand** is positioned below the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.07% of GDP in 2015.
- From 2006 to 2015, government support for BERD as a percentage of GDP increased in New Zealand by 0.03 percentage points, while the OECD median (2006-2016) increased by 0.02 percentage points.
- During this period, business R&D intensity in New Zealand increased from 0.49% to 0.63%.
- In 2016, R&D tax incentives accounted for 7% of total government support for BERD in New Zealand.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

Figure 3. Direct funding of business R&D and tax incentives for R&D, New Zealand, 2000-15
As a percentage of GDP, 2010 prices (right-hand scale)

- **New Zealand** temporarily experimented with R&D tax incentives in 2008 and the cost of this support amounted to NZD 107 million (in 2010 prices). In 2015, with the introduction of the new scheme for deficit-related R&D expenditures, the cost of tax support was estimated to be NZD 12 million (in 2010 prices).
- As a percentage of GDP, R&D tax support was equivalent to 0.05% in 2008 and 0.005% of GDP in 2015.
- Direct funding steadily increased from 0.03% to 0.07% of GDP over the 2000-15 period.
- The share of tax incentives in total government support was equal to 56% in 2008 and 7% in 2015.


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