

R&D Tax Incentives: New Zealand, 2020

Design of R&D tax relief provisions

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. This was followed by the introduction of a broader (going beyond R&D tax losses) volume-based tax credit for R&D in 2019.

Table 1. Main design features of R&D tax incentives in New Zealand, 2020

	Tax credit for R&D tax losses	Tax credit for R&D
Type of instrument	Volume-based	Volume-based
Eligible expenditures [†]	Current, land and buildings	Current, depreciation (machinery and equipment, buildings)
Headline rates (%)	28 (equivalent to corporate income tax rate)*	15
Refund	Yes (deficit related R&D expenses only)	Yes***
Carry-over (years)	No	Yes
Floor	n.a.	Minimum R&D spend of NZD 50 000
Ceilings	R&D tax relief (refund-specific): the smallest of: i. NZD** 2 million multiplied by the CIT rate; ii. company's net loss for the year multiplied by the CIT rate; iii. company's R&D expenditure for the tax year multiplied by the CIT rate; iv. company's R&D labour expenditure for the year, multiplied by 1.5 and by the CIT rate.	- Total eligible R&D expenditure is capped at NZD 120 million for a single firm (the maximum tax credit is NZD 18 million)**** - Up to 10% of an annual R&D claim can be related to R&D carried out overseas. - The refund is limited by a labour-related taxes cap (payroll cap)*****

CIT: Corporate Income Tax.* Companies must fulfil R&D wage intensity and corporate eligibility criteria to be eligible for support; **1 NZD = 0.566 EUR, Q3 2020; ****To qualify, firms must satisfy certain criteria, including a R&D intensity threshold; *****There will be provision for businesses to apply for an extension if they can demonstrate that New Zealand will "derive a substantial net benefit from the intended completion of the R&D". ***** The amount of PAYE, Employer Superannuation Contribution Tax and Fringe Benefit paid within the year by the claimant and companies that the business is controlled by or which sit within the same wholly owned group New Zealand also offers non-discretionary grants to firms with stable, high-intensity R&D programmes (through Callaghan Innovation). This type of incentive is beyond the scope of this note.

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

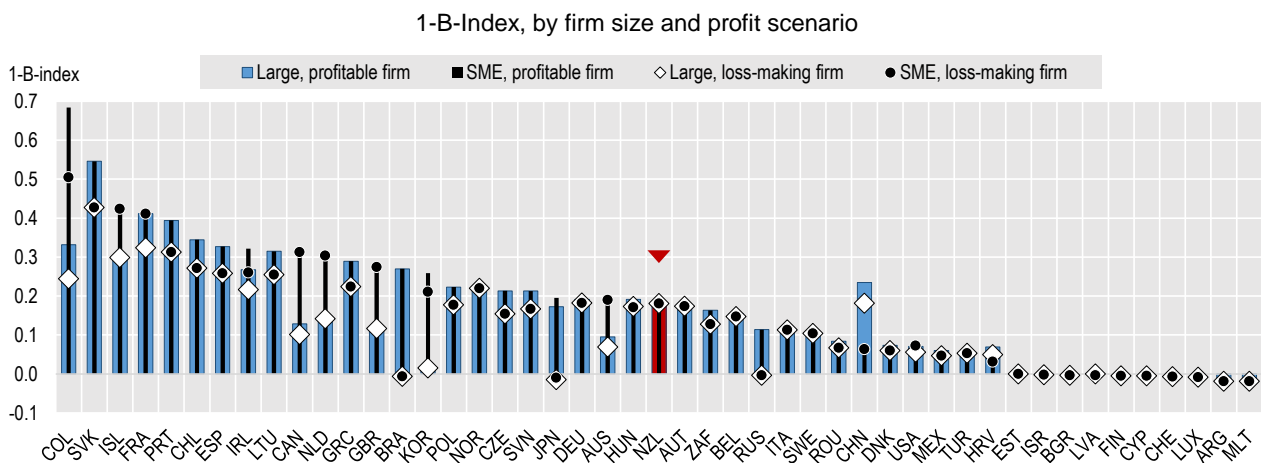
Key features:

- The headline rate of the new R&D tax credit is 15%. Under the tax credit for R&D tax losses, companies receive tax credits corresponding to 28% of any deficit related to R&D expenses.
- A ceiling applies to the amount of refundable tax credits under both R&D tax incentive schemes. The tax credit for R&D further imposes a minimum level (floor) of eligible R&D expenditure.

Generosity of R&D tax support in 2020

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **New Zealand** is estimated at 0.18 (0.18), close (equal) to the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises equals 0.18 (0.18) in the profit (loss)-making scenario and is larger (smaller) than the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: New Zealand, 2020



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **New Zealand** undertook **one change** in its R&D tax relief provisions:

- **In response to the COVID-19 crisis**, the Taxation and Social Assistance Urgent Measures Act 2020 was enacted on March 25, 2020. It introduced key changes with regards to refundability, such as the removal of the R&D wage intensity cap and of the \$255,000 maximum cap. R&D tax credit refunds are only limited by the amount of PAYE, Employer Superannuation Contribution Tax and Fringe Benefit Tax paid within the year by the claimant and companies that the business is controlled by or which sit within the same wholly owned group. The payroll cap does not apply to R&D tax credits claimed by levy body researchers, or credits derived from eligible expenditure on approved research providers.

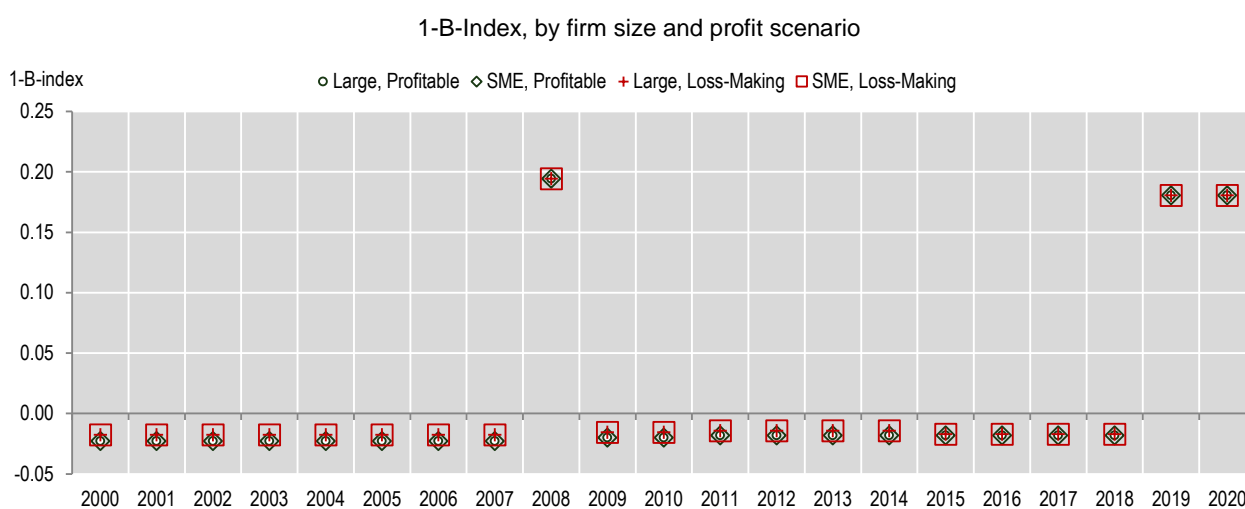
Trends in the generosity of R&D tax support

New Zealand temporarily experimented with a refundable R&D tax credit in 2008. In 2008, the tax subsidy estimated for an SME and large firm in the profit (loss)-making scenario was 0.19 (0.19).

In 2015, **New Zealand** reintroduced R&D tax incentives in the form of a tax credit for R&D tax losses, which foresees 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 rather marginal.

In 2019, **New Zealand** introduced a new and refundable R&D tax credit at a rate of 15%, leading to a jump in the implied R&D tax subsidy rate across the four scenarios considered. The R&D tax subsidy rate estimated for SMEs and large firms in that year amounted to 0.18 in both profit scenarios and did not change thereafter.

Figure 2. Implied tax subsidy rates on R&D expenditures: New Zealand, 2000-20



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

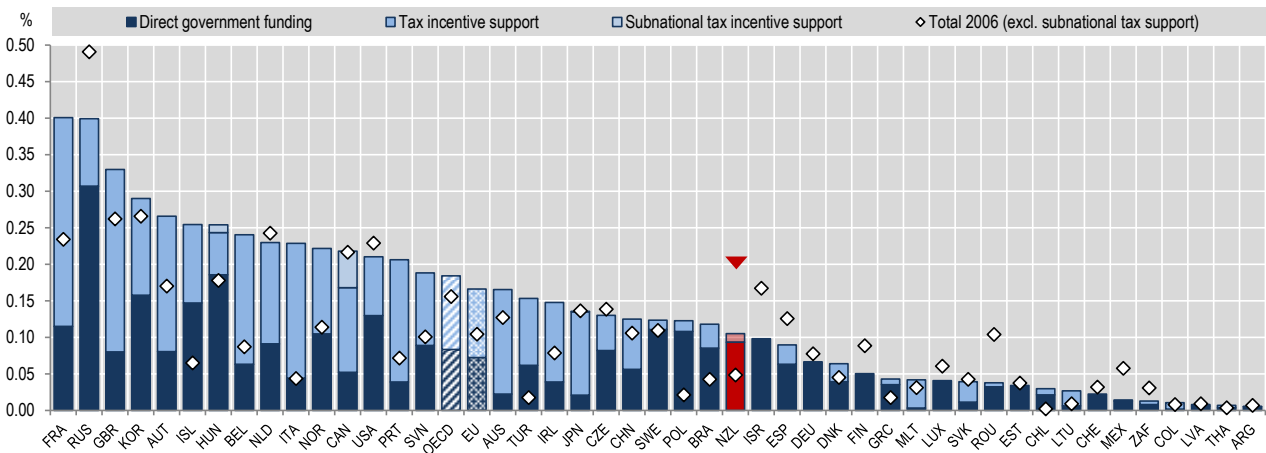
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Policy support for business R&D: the policy mix

New Zealand is placed below the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.11% of GDP in 2018.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key points:

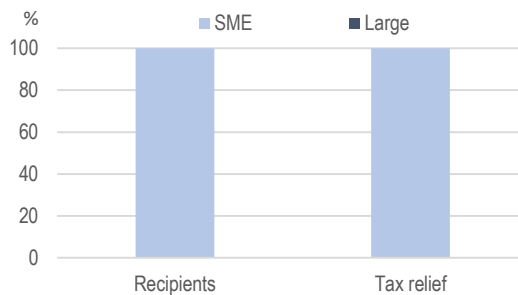
- From 2006 to 2018, government support for BERD as a percentage of GDP increased in **New Zealand** by 0.06 percentage point (pp), while the OECD average increased by 0.03 pp.
- During this period, business R&D intensity in **New Zealand** increased from 0.49% to 0.80%.
- In 2018, R&D tax incentives accounted for 11% of total government support for BERD in **New Zealand**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018

By firm size*, share in percent



Note: Figures refer to the Tax Credit for research and development tax losses. *SMEs are defined as firms with 0-199 employees.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

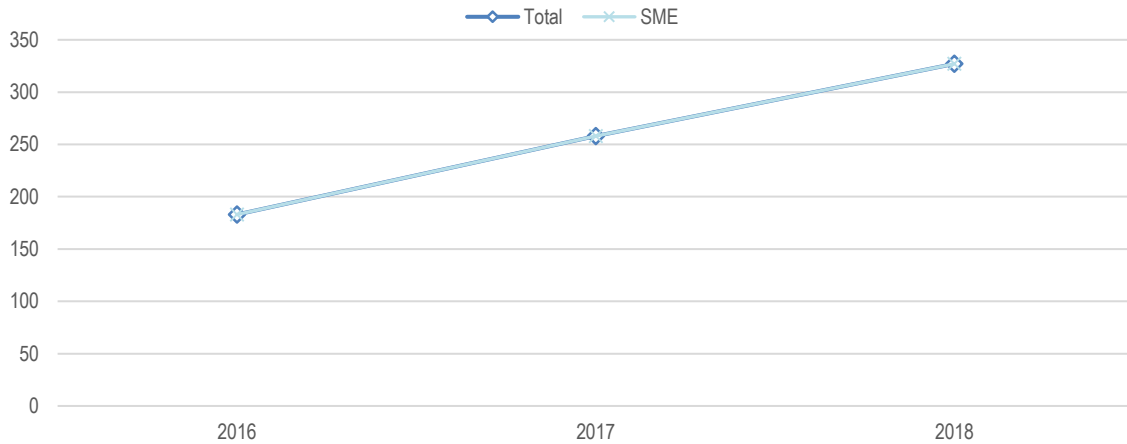
Key points:

- In **New Zealand**, SMEs accounted for 100% of R&D tax relief recipients in 2018, and 100% of R&D tax benefits were allocated to SMEs in that year under the tax Credit for research and development tax losses. These figures highlight the importance of refundable incentives for small and medium-sized corporate R&D performers.
- Relevant data on the number of R&D tax relief recipients and government tax relief for R&D by industry are currently not available for **New Zealand**.

Trends in the uptake of R&D tax incentives

Following the introduction of a Tax Credit for research and development tax losses in 2015, the number of R&D tax relief recipients increased from around 180 in 2016 to 330 in 2018 and thus nearly doubled within the first two years of operation. Exclusively SMEs made use of the deficit-related tax credit during those years.

Figure 5. Number of R&D tax relief recipients, New Zealand, 2016-2018



Note: Figures refer to Tax Credit for research and development tax losses.

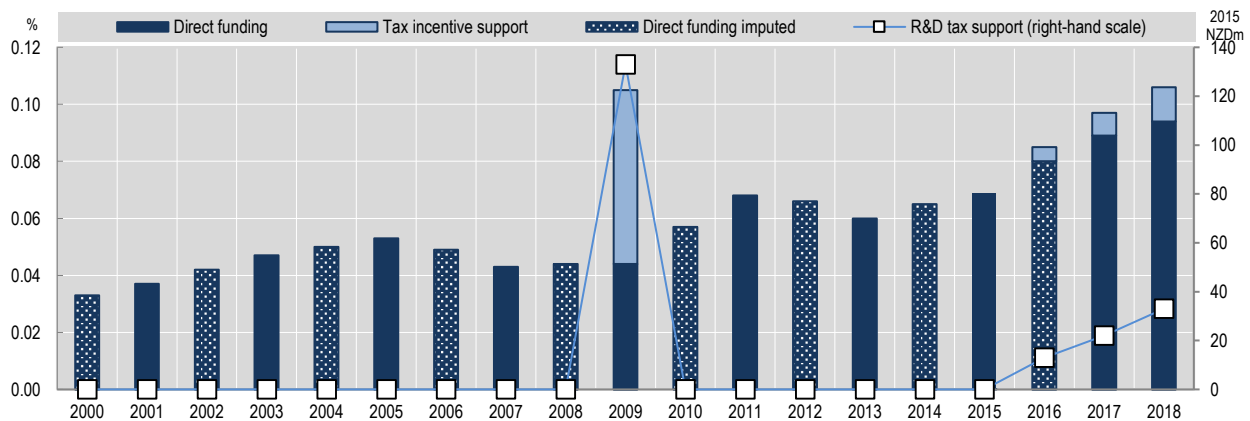
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

New Zealand temporarily experimented with R&D tax incentives in 2008 and the cost of this support (in 2015 prices) amounted to NZD 133 million in 2009 when tax benefits were paid out. Following the introduction of a new scheme for deficit-related R&D expenditures in 2015, the cost of government tax support for R&D raised from NZD 13 million (in 2015 prices) in 2016 to NZD 33 million (in 2015 prices) in 2018.

Figure 6. Direct funding of business R&D and tax incentives for R&D, New Zealand, 2000-18

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

- As a percentage of GDP, R&D tax support decreased from 0.06% in 2009 to 0.01% of GDP in 2018.
- Direct funding steadily increased from 0.03% to 0.09% of GDP over the 2000-18 period.
- The share of tax incentives in total government support was equal to 58% in 2009 and 11% in 2018.

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