

Hon Steven Joyce

Minister of Science & Innovation

Hon Todd McClay

Minister of Revenue

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Two new tax measures to support business R&D

Innovative Kiwi businesses investing in research and development (R&D) will benefit from two new tax measures as part of Budget 2014, Science and Innovation Minister Steven Joyce and Revenue Minister Todd McClay say.

As a result of Budget changes, loss-making start-up companies will be able to cash out all or part of their tax losses from R&D expenditure, while all businesses will be allowed tax deductibility for R&D “black hole” expenditure that is currently neither deductible nor able to be depreciated.

The two initiatives are together estimated to return a net \$58.1 million in tax to innovative companies over the next four years, and both are part of the Building Innovation stream of the Government's Business Growth Agenda.

“The Government is targeting an increase in business R&D to 1 per cent of GDP to help build long-term growth and prosperity for New Zealand,” Mr Joyce says. “As part of that we want to reduce tax hurdles that discourage R&D investment by innovative companies.”

The two measures will mean:

- R&D-intensive start-up companies will have early access to all or part of their tax losses in the form of a cash receipt, rather than carrying these losses forward.
- All capitalised costs on depreciable, intangible assets (for example, patents) will be deductible over time. Currently, only the legal and administrative costs of registering the asset are treated as depreciable. Additionally, a one-off tax deduction will be allowed for capitalised

development expenditure on intangible assets that are written-off for accounting purposes. This will relieve “black hole” expenditure on R&D projects that ultimately turn out to be unsuccessful.

“Changing the current tax treatment of losses arising from R&D expenditure by start-up companies will assist in reducing constraints on their cash-flow and capital,” Mr McClay says.

“Meanwhile the changes to the treatment of black-hole expenditure will ensure businesses are not discouraged from undertaking R&D programmes simply because of the tax treatment of their expenditure.”

“The objective of these proposals is to encourage businesses to invest more in R&D through targeted initiatives which focus on the actual issues faced by businesses and the economy,” Mr Joyce says.

“These initiatives, together with the development of Callaghan Innovation and our comprehensive R&D co-funding programme, add up to a comprehensive agenda to support innovative Kiwi companies to develop and succeed on the world stage.”

Both new policies are expected to take effect from the 2015/16 income year.

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