



I own an IT company and have heard the government is bringing in a research and development tax incentive scheme. What could this mean for me?

Answer from Andrew Dickeson, Tax Director,
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The government has recently introduced a bill to Parliament that, if passed, will reinstate a 15% tax credit for eligible research and development (R&D) expenditure. Our comments are based on the bill as it stands in mid-November 2018.

In order to be eligible, your business will need to:

- Perform a core R&D activity in New Zealand, or have a contractor perform a core R&D activity on their behalf;
- Carry on a business through a fixed establishment in New Zealand; and
- Have controlling rights over their R&D activities.

The business will either need to own the results of the R&D activities, be able to use these results without further payment, or be in a group of companies that owns these results (subject to jurisdictional requirements).

Eligible R&D will be comprehensively defined. Fundamentally, a core R&D activity is an activity that:

- Is conducted using a systematic approach;
- Has the purpose of creating something new; and
- Has the purpose of resolving scientific or technological uncertainty.

It really depends what your IT services company is doing, but many activities would not be eligible R&D. If you are devel-

oping new applications that are not standard there may be scope for a claim and it would pay to speak to a tax specialist.

Eligible R&D expenditure will be comprehensively defined. It is expected to include expenditure such as employee salaries, consumables used in the R&D process, and depreciation on assets used for R&D. Up to 10% of an R&D tax credit claim would be able to be on expenditure incurred outside New Zealand.

The R&D tax credit will be available for R&D expenditure of between \$50,000 and \$120 million each year.

The R&D tax credit is refundable up to \$255,000 per annum if the taxpayer has losses. If a business is in losses, the tax credit will instead be carried forward to be offset against future income tax liabilities.

The legislation is planned to come into effect from the start of the 2019/20 year, which for a small number of businesses has already begun! Because of the level of identification and record keeping required, any business involved in research and development should look to get ready for the new R&D tax credit.

If you have any questions regarding R&D tax credits please contact your usual Staples Rodway advisor.