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Research & Development Tax Incentive (RDTI)

Deciding if the RDTI is right for you
and your business

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Introducing the Research and Development Tax Incentive (RDTI)

The Research and Development Tax Incentive (RDTI) is designed to drive New Zealand business innovation, building a stronger, more productive economy for all New Zealanders.

By lowering the business cost of R&D it incentivises firms to do more, and encourages others to start. With the RDTI now in place, it allows a 15% tax credit on eligible expenditure. This guide will help you understand the framework around eligible R&D and what you can claim.

Navigating the R&D ecosystem

The RDTI is part of an ecosystem of products designed to support your R&D activity. It's worth being aware that while many of these can be claimed alongside the RDTI, some may restrict you from claiming certain expenditure, or even altogether.

Callaghan Innovation offers a range of grants to fund various project development stages and enhance your R&D capability. Our grants include the Growth Grant, Project Grant, Student Grant, and Getting Started Grant.

Incubators and accelerators can also help you access funding, business networks, and expertise for growth.

NZTE offers a capability vouchers scheme to offset the costs of approved training (up to \$5,000) and a low-fee business mentor service for access to expert knowledge and guidance. Additionally, investment funds such as the Seed Co-investment Fund and the New Zealand Venture Fund (NZVIF) can provide extra capital to start-up and early stage businesses.

CALLAGHAN INNOVATION GROWTH GRANT

The RDTI takes the place of the Callaghan Innovation Growth Grant as the Government's major form of R&D funding support for businesses. The Growth Grant will be retired in the 2020/21 tax year. Different eligibility criteria apply for the RDTI.

You can't claim the RDTI if you receive or are associated with an entity already receiving a Growth Grant¹.

OTHER GOVERNMENT GRANTS AND INCENTIVES

You may be able to claim the RDTI if you receive other government or local authority grants. However, you can't claim against the expenditure they fund. Expenditure paid for by co-funding, where you or a third party contributes funds as a condition of obtaining a grant, is also ineligible.

1. A limited exception exists in the 2021 income year for late balance date taxpayers—check page 24 of the detailed [RDTI guide](#) (on Inland Revenue's website) for more information.

R&D LOSS TAX CREDIT

Some companies can offset their R&D costs via the R&D loss tax credit scheme (up to \$476,000). The RDTI can also be claimed in conjunction with the existing R&D loss tax credit. These products complement, but don't impact on, each other.

R&D TAX DEDUCTIBILITY

Expenditure that is eligible for the RDTI may also be deductible under the existing tax rules. Claiming the incentive does not affect your ability to deduct R&D expenses under the tax deductibility rules and vice versa.

Is the RDTI right for me?

If your business is using a systematic approach with an aim to both resolve scientific or technological uncertainty and create new knowledge or things, the RDTI may be right for you.

What do I get?

The RDTI offers most New Zealand-based businesses a 15% tax credit on money spent on R&D in New Zealand. You can use the credit to reduce your income tax bill. It is generally available to businesses who spend more than \$50,000 on eligible R&D in a given year, but if you spend less than \$50,000 you might be eligible if you use [an approved research provider](#) for your R&D. You can be eligible whether your businesses is in profit or loss. Special rules apply to allow you to include some overseas R&D in your claim if you meet certain criteria.

A CREDIT RATE OF

15%

**\$120
MILLION**
EXPENDITURE CAP

A MINIMUM R&D
EXPENDITURE OF

\$50k

PER YEAR
(or less with an approved
research provider)

During the first year, it will be refundable to qualifying businesses currently in tax loss, or without enough income tax payable to use up all their tax credits. This will help smaller businesses with cash-flow challenges. Businesses can choose between two different sets of refundability rules for Year 1 (up to a cap based on labour-related taxes (the broader refundability rules), or up to a maximum limit of \$255,000 (the limited refundability rules)). Note that only the broader refundability rules will be available from Year 2.

Read the [RDTI Refundability fact sheet](#) for further details.

Entity eligibility

You're eligible to apply for the RDTI if you:

- perform a core R&D activity in New Zealand yourself or through an R&D contractor in New Zealand, and
- conduct business through a fixed establishment in New Zealand. A fixed establishment is a fixed place of business in which you carry on substantial business, like a shop, factory or workshop. You are likely to have a fixed establishment in New Zealand if you're doing core R&D yourself in New Zealand (rather than through a contractor).

The RDTI is intended to reward businesses investing in R&D, so it excludes R&D contractors whose business is doing R&D for others. Find more information on page 29 of the [detailed RDTI guide](#).

To be eligible to claim:

- you must own the results of your R&D, or
- another company in your corporate group must own the results of the R&D and must also be tax resident of New Zealand or a jurisdiction with which New Zealand has a double tax agreement, or
- your joint venture or partnership (if you are in one) must own the results of the R&D.

Partnerships, look-through companies and joint ventures are eligible for the incentive if they meet certain conditions. Refer to page 31 of the [detailed RDTI guide](#) for more information.

INELIGIBLE ENTITIES

You cannot claim the RDTI if you:

- receive—or are directly or indirectly controlled by, or associated with—a person receiving a Callaghan Innovation Growth Grant for the same income year,
- are a Crown Research Institute, district health board or tertiary education organisation, an associate of one of these organisations, or are majority-owned or effectively controlled by one of these organisations or their associates,
- are performing the R&D activity on behalf of another person who carries on a business through a fixed establishment in New Zealand, and/or
- are a member of a joint venture, a partner in a partnership, or an owner of a look-through company, and not a New Zealand tax resident for the whole tax year.

Refer to page 24 in the [detailed RDTI guide](#) for more information on exclusions.



What defines eligible R&D?

Your business must be undertaking an eligible R&D activity to claim the RDTI. These are some key definitions to help you ascertain exactly what qualifies as eligible R&D.

CORE ACTIVITY – AT A GLANCE

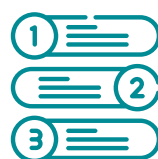
A core R&D activity must:



Occur in
New Zealand



Seek to resolve scientific or
technological uncertainty



Follow a systematic
approach



Seek to create new knowledge,
or new or improved processes,
services or goods

SCIENTIFIC AND TECHNOLOGICAL UNCERTAINTY

R&D is about exploring the unknown. Scientific or technological uncertainty is a gap in the available scientific or technological knowledge. That means when a competent professional, with access to publicly available information, doesn't know if something is achievable.

If your team can use a systematic approach to discover that knowledge and bridge the gap (for example through testing, experimentation or prototyping) it may qualify for the RDTI.

SYSTEMATIC APPROACH

A systematic approach is a methodical process to find possible solutions to an uncertainty. The solution is the idea, proposal or hypothesis that is being investigated using the systematic approach.

This is intended to disqualify accidental discoveries.

The test for a systematic approach in research contexts is whether the methodology is sufficiently structured and documented that it can be reproduced.

PURPOSE OF CREATING SOMETHING NEW OR IMPROVED

The core R&D activity must have the aim of creating new knowledge, or new or improved processes, services or goods. The test of 'new' is on a worldwide basis—not just new to your business, or for New Zealand. R&D doesn't have to be successful, or result in something new or improved to be eligible.

Supporting R&D activities

There may be activities related to your core R&D activity that, although not meeting the definition of a core R&D activity, are required for you to conduct the core activity.

To qualify for the RDTI, a supporting activity must:

- support the core R&D activity as its only or main purpose, and
- be required for and integral to the core R&D activity.

More information can be found on page 38 in the [detailed RDTI guide](#).

Excluded activities

There are some exclusions, so make sure you've checked them to determine if your goals fall within the scope of the RDTI.

→ Pre-production activities

Pre-production activities include tooling up and trials undertaken to test commercial viability. If eligible R&D is being conducted alongside pre-production activities, the pre-production activities are ineligible, but the activity directed towards resolving the remaining uncertainty may be eligible.

→ Prospecting for, exploring for, drilling for minerals, petroleum, natural gas or geothermal energy

These activities resolve uncertainty relating to geography or location, rather than scientific or technological uncertainty and are not eligible.

→ Supporting or making minor improvement to existing computer software, using known methods, routine debugging of existing computer software and routine software and computer maintenance

'Existing' has the dictionary definition and is used to describe something already present, available, or in operation. A process, service or good is not existing if it is being developed for the first time. Routine has its normal dictionary meaning.

→ Ineligible internal software development such as payroll, accounting and invoicing systems

This covers software development undertaken for the only or main purpose of the internal administration of your business or the business of your associate(s).

→ Market research, market testing, market development, or sales promotion, including consumer surveys

Even where such activities may occur within the same overall project as core R&D activity, they support commercial objectives rather than resolving scientific or technological uncertainty.

→ Commercial, legal and administrative aspects of patenting licensing or other similar activities and activities involved with statutory requirements or standards for pre-existing processes, services or goods.

→ Management studies and activities related to organisational design

Management studies and organisational design are not in the intended scope of the RDTI and as such are completely excluded.

The following activities are excluded as core R&D as they don't meet the test of resolving scientific or technological uncertainty—however they may be eligible if they directly support an eligible activity:

- **Minor adaptations, cosmetic or stylistic changes or improvements, including to software**
An activity that involves making cosmetic or stylistic changes may be eligible as a supporting R&D activity if the work meets the definition. That is, if the cosmetic or stylistic activities have the only or main purpose of supporting the core activity and are required for and integral to the core R&D activity.
- **Quality control and routine testing**
Routine testing and testing for quality control purposes are excluded as a core R&D activity because they do not test possible solutions to an unknown.
- **Data mapping and data migration testing**
Although these activities may use a systematic process, they do not themselves resolve scientific or technological uncertainty.
- **Social science, arts, humanities, organisational design and management studies**
Regardless of whether there is scientific or technological uncertainty, research in the social sciences is not eligible as a core R&D activity.
If your core R&D activity is in an eligible field and requires social science research, this research may be eligible, but it must be only or mainly for, required for, and integral to the core activity.
- **Routine collection of information and routine operations on data including presentation**
Routine collection of information could be eligible as a supporting R&D activity, however if it would have occurred in the absence of the R&D, it is unlikely to meet the test of being for the only or main purpose of supporting the core R&D activity. Where there is an eligible core R&D activity, the manipulation or presentation of data relating to the systematic approach of testing or prototyping may be eligible as a supporting R&D activity.
- **Bug testing, beta testing, systems requirement testing, user acceptance testing, data integrity testing, testing security protocols or arrangements, testing or comparing the efficiency of algorithms that are already known to work, and converting or integrating existing systems with new platforms.**
For the avoidance of doubt these activities are ineligible as core R&D activities because they do not aim to resolve scientific or technological uncertainty. If there is eligible core R&D, these activities may be eligible as supporting activities provided they meet the supporting activity definition.

More information can be found on page 51 of the [detailed RDTI guide](#).



Eligible expenditure

To claim the RDTI you must be able to identify which expenditure is directly connected to R&D activities and meets the eligibility criteria. It must be greater than \$50,000 in the year, unless it is for a contract with an approved research provider. The maximum eligible expenditure in any year is \$120m unless you receive approval for a higher limit.

Amounts you spend can generally only be claimed to the extent they relate to R&D. A special rule applies for R&D done in commercial production environment, such as a manufacturing line. For more information on the commercial production rule, refer to page 66 of the [detailed RDTI guide](#).

TYPES OF ELIGIBLE EXPENDITURE

Depreciation

You can't claim the RDTI on assets you acquire and use in your R&D activity, but you can claim depreciation on them. Depreciation is calculated using the same rates and methods you use to calculate your income tax deductions.

Where assets are used for eligible activities and other purposes, the depreciation must be reasonably apportioned between them. This would normally be based on the time used for each, ignoring any downtime.

Special rules apply for amounts you spend creating new assets. For more information on these rules, please refer to page 76 of the [detailed RDTI guide](#).

Employee costs

You can claim your costs for employees involved in eligible activities, including:

- salaries, wages, overtime, bonuses, sick, annual and long service leave,
- the cost of shares issued to employees.

If employees are performing other duties, their costs must be reasonably apportioned and documented with time sheets, project plans, or other documents giving a clear breakdown.

Goods and services

You can claim the RDTI on the cost of acquiring goods and services (other than assets) you use in your R&D. This includes overheads, materials used, and paying contractors performing R&D for you.

SPECIAL CASES

Associated persons

If you acquire goods, services, property, or a right to use property from an associate, you can only claim the cost they incurred to acquire the property or service, or the market value of your right to use it.

Contracted expenditure

If you contract out your R&D, you must deduct any ineligible expenditure incurred by the contractor from the expenditure you claim. For example, if your payment to the contractor includes an amount for them to purchase specialised equipment (depreciable property for the contractor), you can't

include the cost of that equipment (eligible expenditure might include an amount for depreciation loss on the item while it was being used in your R&D).

Production expenditure

If you perform your R&D in the course of normal commercial production, you can only claim the employee and additional costs related to the actual R&D. This means that costs like rent, rates, insurance and maintenance won't qualify.

Foreign expenditure

If you carry out R&D activities outside New Zealand which are not integral to a core R&D activity you conduct in New Zealand, the expenditure on those activities is ineligible.

Expenditure on supporting R&D activities conducted outside New Zealand might be eligible for the RDTI, but can't exceed 10% of your total eligible expenditure.

Special rules mean that amounts you pay non-resident contractors and employees to do R&D in New Zealand are considered foreign expenditure, and come within the 10% cap. For more information on this, refer to page 70 of the [detailed RDTI guide](#).

Ineligible expenditure

You can't claim the RDTI on the following:

- The GST input portion of expenditure
- Someone else's eligible expenditure
- Amounts in excess of \$120m unless you have approval for a higher amount (this includes any amounts spent by your associates on R&D)
- Expenditure incurred in acquiring depreciable property
- Expenditure that contributes to the cost of depreciable tangible property (other than prototypes)
- Depreciation on property to the extent the cost of the property is eligible expenditure
- Depreciation on pooled property where an item in the pool is not used solely in performing R&D
- Depreciation when an asset is written off or sold below its adjusted tax value
- Certain amounts of depreciation when property is acquired from an associate
- Profits on R&D services and property provided by associates
- Amounts in excess of market value for leasing assets from associates
- Expenditure to purchase land
- Interest and other financing costs
- Professional fees for determining your entitlement to the RDTI
- Expenditure to acquire an interest in intangible property other than software
- Expenditure on bespoke software
- Internal software development expenditure in excess of \$25m (this includes any amounts spent by your associates on R&D)
- Expenditure on goods or services in excess of market value
- Gifts

- The cost of acquiring technology that is used as a basis for further R&D activities
- Expenditure to commercialise the results of R&D activity
- Expenditure that relates to a government or local authority grant
- Expenditure on inputs used, or subject to a process or transformation, to the extent the expenditure does not exceed the value of the output from that expenditure (feedstock rule).
- Expenditure for which you have received an R&D tax credit from another country
- If your eligible expenditure is less than \$50k, expenditure or loss that is not for an approved research provider.

More information on ineligible expenditure can be found from page 74 of the [detailed RDTI guide](#).

What do I need to do?

To claim the RDTI you must:

1  Enrol with Inland Revenue on myIR	2  Keep appropriate records of your eligible R&D activity and expenditure as set out in the record-keeping section	
3  Make a judgement (self-assessment) that your business is an eligible entity with eligible R&D activity and eligible expenditure.	4  Complete an R&D supplementary return	5  File your income tax return, making sure you complete the R&D tax credit field

You must also meet the deadlines for filing your R&D supplementary return and your income tax return as outlined below.

Record-keeping requirements

The RDTI operates on a self-assessment basis. So you're responsible for determining whether your activities and expenditure meet the legislation's requirements, and maintaining records to support your claim.

WHAT RECORDS SHOULD BE MAINTAINED?

Your business records must be sufficient to verify:

- the nature of the R&D activities,
- the amount of expenditure incurred on R&D activities,
- the relationship between the expenditure and the R&D activities.

Relevant records include those normally kept by businesses to support income tax and GST claims. Additional records will be required to cover the planning and processes of your R&D, and to isolate eligible expenditure. These records will vary depending on the nature of your business and R&D activities.

RECORDS OF ELIGIBLE ACTIVITIES

Your records should establish that you meet all the eligible activity requirements. Ideally you should maintain a project summary document for each core R&D activity that summarises:

- The new or improved knowledge, product, process or service sought
- The scientific or technological uncertainty or uncertainties that needed to be resolved
- The state of knowledge or technology that existed when the R&D was undertaken
- Evidence that the knowledge was not publicly available or deducible by a competent professional –this might include:
 - Literature reviews
 - Patent or other searches
 - Scientific or technological reviews and articles
 - Reports or opinions from experts
 - Trade journal articles
- Evidence of the systematic approach to the R&D, such as project plans and records of testing and outcomes
- When the core activity commenced and ceased
- How your supporting activities relate to the core activity
- How you identify costs that relate to the eligible activity.

RECORDS OF ELIGIBLE EXPENDITURE

You already keep records of your income and expenditure (e.g. contracts, invoices, wage records) in your accounting systems and financial statements. However, your existing expense classifications won't necessarily match up with the definitions of eligible and ineligible expenditure. You'll need to develop additional systems that make it clear which is eligible. Your records should be detailed enough to attribute the expenditure you are claiming to the relevant core or supporting activity.

APPORTIONMENT

If your employees, business assets and other resources are used in both R&D and other activities, you will need to apportion the expenditure between them.

There are many ways of doing this, and you must use one that can be substantiated. This could include the use of time records for employees, floor space for rent, and hours of use for plant and equipment.

Whichever method you use, you should be able to show why it is appropriate.

COMMERCIAL PRODUCTION

If you perform your R&D activity in conjunction with a commercial production activity (producing products or services for sale), you can only claim the RDTI on:

- expenditure on your employees' contribution to the R&D activity, and
- the additional expenditure you incur because of the R&D activity.

This means you have to keep records to substantiate the time and costs for employees working on the R&D activity, and any additional costs incurred.

FEEDSTOCK RULE

Where any goods produced as a result of the R&D activities are sold, you must deduct the sale price or market value of the goods from your eligible expenditure. You will need to keep records of the production costs, volume and value of goods produced and sold, and the volume on hand at the end of the year.

CONTRACTORS

If you engage a contractor to carry out your R&D activity, any contracts, reports and invoices should enable you to:

- identify the eligible R&D activities performed by the contractor and describe them as required by the R&D supplementary return (and from 2020/2021 the application for general approval),
- identify the cost of the eligible R&D activity and exclude expenditure on any other work carried out,
- identify and exclude any ineligible expenditure incurred by the contractor,
- identify when and where the contracted R&D was undertaken.



Process

ENROLMENT

If you intend to claim the RDTI, the first step is enrolling with Inland Revenue website through myIR.

In your myIR account, you'll find the **I want to** tab and **RDTI enrolment**. You'll need to provide some basic information about your business, and contact details.

Your enrolment doesn't commit you to making a claim, it merely enables it. Once enrolled you'll have access to the R&D supplementary return and—from the 2020/2021 income year—the application form for general approval.

SELF-ASSESSMENT

Before you complete a supplementary return and file your tax return, you must make a judgement that you meet the various requirements. The information we have provided in this document and in our [detailed RDTI guide](#) will help you make this assessment. For more information see 'Where do I go for help?' at the end of this document.

R&D SUPPLEMENTARY RETURN IN THE 2019/2020 INCOME YEAR

The R&D supplementary return requires some information about your business, for example, if you are conducting the R&D as part of a partnership or joint venture, and information about your eligible R&D activities and expenditure.

In the 2019/2020 income year, the R&D return will ask for the following information about your R&D activities²:

- The project name or names if you have more than one project.
- For each project, what new or improved thing are you trying to create?
- What scientific or technological uncertainty or uncertainties are you trying to resolve?
- What systematic activities did you undertake to test possible solutions to the uncertainty or uncertainties? This might be a process of experimentation, testing or prototyping etc.
- Information about any activities which, although they are not testing possible solutions to a scientific or technological uncertainty, are directly related to those activities and meet the tests to be a supporting R&D activity.

You'll be asked for a breakdown of your expenditure and depreciation loss on eligible R&D activities. In the supplementary return we ask for this information aggregated at the project level but we expect you that you would have records that show your claimed expenditure for each claimed core or supporting activity.

In addition, we will ask whether any of the expenditure in your claim relates to R&D conducted in a context where additional rules apply, for example overseas R&D, or R&D in a production environment.

Finally, there are questions intended to help the Government evaluate the success of the RDTI scheme. The R&D return must be filed electronically through myIR within 30 days after your income tax return due date.

A PDF of the questions asked in the R&D supplementary return is on the IR [website](#). If you are enrolled for the R&D tax credit you will be able to see the R&D supplementary return service in your myIR account after the end of your income year.

2 . In 2020/2021 this information will be provided in the application for general approval.

Claiming the tax credit in your income tax return

Your income tax return will have a single field for the value of the R&D credit you are claiming, this field will only appear in the electronic version of the income tax return so you will also need to file this electronically.

You should file your income tax return by the due date, including any extension. To be considered, the absolute last date for filing your income tax return is one year after its due date, but you should know that if you file late, interest and penalties may apply.

Changed process in 2020/2021: general approval

From the 2020/2021 income year, most businesses will need to get their R&D activities approved before they can claim the RDTI. This is known as obtaining general approval.

The general approval process will provide you with certainty that your activities are eligible, and reduce the work needed for the R&D supplementary return.

The questions about R&D activities in the general approval process from 2020/2021 will be similar to those included in the R&D supplementary return in 2019/2020.

If your R&D activities are approved, you will then complete an R&D supplementary return focussing on R&D expenditure and provide confirmation that your R&D activities are not materially different to those which have received a general approval.

You are encouraged to apply for general approval as early as possible in your income year as this will provide you with certainty that your activities qualify. You can update your application if something material changes or you start a new R&D project.

General approval applications are due by the 7th day of the 2nd month following the end of your income year. So, if you are a standard balance date (31 March) taxpayer, your general approval application will be due on the 7th of May in your following income year.

The due dates for filing your R&D supplementary return and income tax return will follow the same pattern as in the 2019/2020 year.

Changed process in 2020/2021: significant performer regime

An exception to the requirement to obtain general approval will exist for businesses that expect to have eligible R&D expenditure of more than \$2m in an income year. These businesses can apply through myIR to be recognised as a significant performer, however they must obtain general approval for their R&D activities if they do not obtain significant performer status.

More information about the processes for businesses which expect to have eligible R&D expenditure of more than \$2m in an income year appears on page 106 of the [detailed RDTI guide](#).

Receiving your RDTI

The RDTI produces R&D tax credits at a rate of 15% for every dollar of eligible R&D expenditure. These credits are subtracted from your income tax owing and reduce the amount of income tax you would otherwise have to pay.

Some businesses which make a loss, or have less income tax to pay than R&D tax credits, may be able to receive a refund of their RDTI. The full requirements for refundability in 2019/2020 are explained from page 115 of Inland Revenue's [detailed RDTI guide](#).

If you do not meet the criteria for refundability but have less income tax to pay than R&D tax credits, you can carry unused credits forward to your next year. If you are a company, you must meet shareholder continuity requirements to carry your tax credits forward.

Where do I go for help?

- Test your RDTI eligibility using [our guidance](#)
- Further written information—see [our guidance](#) or join our [online forum](#)
- For further information about R&D activities ask Callaghan Innovation rdti@callaghaninnovation.govt.nz
- If you need more detailed information around applying for the RDTI, or eligible expenditure or entities, ask IR r&dtiteam@ird.govt.nz or consult your tax advisor.

