

October 2020



Research & Development Tax Incentive (RDTI)

Guidance for switching from the Growth Grant

Guidance for switching from the Growth Grant to the RDTI

This guide sets out what you need to do if you're receiving a Growth Grant for the 2020/2021 income year and want to switch to the RDTI.

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 cease to exist after 31 March 2021. Different eligibility criteria apply for the RDTI and you will need to check whether your R&D activities are eligible (learn about getting approval for the RDTI while on the Growth Grant below).

If you receive a Growth Grant at any stage during the income year, you are excluded from claiming the RDTI for that income year (*some special rules apply – refer to the end of this guide for details**). However, in some circumstances, you can terminate your Growth Grant early to claim the RDTI.

Moving from the Growth Grant to the RDTI in the 2020/2021 income year

If you're receiving a Growth Grant in your 2020/2021 income year (Year 2 of the regime, which is from 1 April 2020 to 31 March 2021 for most businesses) and you'd like to move to the RDTI, you must tell the Callaghan Innovation Grants Operations team by 30 November 2020, using the email address FCMOperations@callaghaninnovation.govt.nz.

Provided you are [eligible](#) for the RDTI, if you do the following you will be able to move to the RDTI in Year 2:

- You tell Callaghan Innovation **by 30 November 2020** that you're considering terminating your Growth Grant and moving to the RDTI for Year 2;
- You confirm with Callaghan Innovation **by 31 March 2021** that you want to terminate your Growth Grant contract and refund any Growth Grant payments you have claimed in Year 2;
- You refund any Growth Grant payments you've already claimed to Callaghan Innovation within the timeframes they give you (they will give them to you once you've told them you have decided to terminate your Growth Grant).

Note that the above dates apply for all customers – they are not dependent on your balance date.

Once you have informed Callaghan Innovation that you're considering moving to the RDTI, you won't be able to claim further payments under your Growth Grant. You'll need to tell Callaghan Innovation that you're no longer intending to move to the RDTI if you want to claim any more Growth Grant payments.

Note that once a Growth Grant contract has been terminated, you cannot change your mind and switch back to the Growth Grant from the RDTI.

EXAMPLE

Shanae Co has a Growth Grant contract for the 2020/2021 income year, and claims payments under that Growth Grant contract during the year. Shanae Co. is a standard balance date taxpayer, so has an income year that runs from 1 April 2020 to 31 March 2021.

On 5 July 2020, Shanae Co. realises that it will be better off if it moves to the RDTI, because it has capitalised expenditure on intangible property that is ineligible for the Growth Grant regime but (based on the rules) is likely to be eligible for the RDTI.

The next day, Shanae Co. contacts the Grants Operations team at Callaghan Innovation, and explains that it would like to terminate its Growth Grant contract, refund the Growth Grant payments it has claimed for the year, and access the RDTI instead.

Callaghan Innovation works closely with Shanae Co. to ensure the company understands that once it has terminated its Growth Grant, it will not be able to change its mind if it decides the RDTI is not its preference after all. Callaghan Innovation also explains that Shanae Co has to refund the Growth Grant payments it has claimed within a specified timeframe.

Shanae Co. agrees to this, and goes ahead with terminating its contract by 31 March 2021. It also refunds its Growth Grant payments.

By doing this, Shanae Co. becomes eligible for the RDTI (provided it also meets the other eligibility criteria), because it is treated as having not received the Growth Grant for the 2020/2021 income year.

Since Shanae Co. uses a tax agent (so has an extension of time for filing its return), it has to file its RDTI claim through its income tax return by 31 March 2022. It also has to file its R&D supplementary return within 30 days of this date.

Getting approval for the RDTI while on the Growth Grant

If you have a Growth Grant contract for Year 2 and you are uncertain whether your R&D activities will be eligible for the RDTI, you should consider applying for general approval or (if you expect to spend more than \$2M on R&D in Year 2) criteria and methodologies approval. You might find approval useful if you'd like more certainty about whether the RDTI is right for you before making your final decision.

You can enrol for the RDTI and apply for either type of approval even if you have a current Growth Grant contract. However, even if you have enrolled and have obtained approval, you will not be eligible for the RDTI unless:

- You have terminated your Growth Grant by the end of Year 2 (31 March 2021 for standard March balance date businesses), and
- you have refunded all Growth Grant payments you have claimed for the year to Callaghan Innovation within the timeframes specified by Callaghan Innovation.

EXAMPLE

Emma Co. has a standard 31 March balance date, and has a Growth Grant contract for the 2020/2021 income year (Year 2 of the scheme). It's not sure how much it will spend on eligible R&D, and whether it will be better off continuing with its Growth Grant or terminating it and moving to the RDTI.

In November 2020, Emma Co. still hasn't determined which regime will better support its R&D programme. It has claimed one payment under its Growth Grant.

On 30 November 2020, Emma Co. decides to get in touch with the Callaghan Innovation Grants Operations team so that Callaghan Innovation is aware that Emma Co. is thinking about potentially terminating its Growth Grant and moving to the RDTI. Callaghan Innovation thanks Emma Co. for notifying them, and tells Emma Co. that it has until 31 March 2021 to decide whether to terminate its Growth Grant. Callaghan Innovation also advises Emma Co. that it won't be able to claim any further Growth Grant payments until Emma Co. decides whether to terminate its Growth Grant contract.

Emma Co. decides to enrol for the RDTI online (through myIR), and lodges an in-year approval application so that it can obtain certainty regarding the eligibility of its R&D activities. It receives approval for its R&D activities at the end of February 2020.

Hypothetical 1: Emma Co decides to stay on the Growth Grant

On 15 March 2021, Emma Co. determines that it would rather stay on the Growth Grant for the 2020/2021 income year. It claims its remaining Growth Grant amounts, some of which are paid out after 31 March 2021. After 31 March 2021, Emma Co. is not able to change its mind and move to the RDTI for the 2020/2021 income year.

Hypothetical 2: Emma Co decides to terminate its Growth Grant

On 15 March 2021, Emma Co. determines that it is better off claiming the RDTI than the Growth Grant. It notifies the Callaghan Innovation Grants Operations team and arranges to refund its Growth Grant payments claimed pre-30 November to Callaghan Innovation within an agreed timeframe.

Provided Emma Co satisfies the other RDTI eligibility criteria (and refunds its Growth Grant payment according to the timeframe arranged with Callaghan Innovation), it will be eligible to claim the RDTI for the 2020/2021 income year. Emma Co files its RDTI claim by the relevant deadlines and receives R&D tax credits for the 2020/2021 income year.

* PLEASE NOTE:

Special rule for Growth Grant recipients with late balance dates in the 2020-21 income year (year 2 of the tax credit scheme)

Generally, if you receive a Callaghan Innovation Growth Grant for the whole, or a part, of the 2020-21 year, you cannot claim the RDTI for that income year. The exclusion also applies where you are directly or indirectly controlled by or associated with a person receiving a Growth Grant. If the exclusion applies, it applies even to R&D activity and expenditure for which you have not received a Growth Grant.

However, the exclusion may not apply for the entire 2020-21 income year if you satisfy both the following:

- Your income year starts after 1 April 2020 (you have a late balance date).
- You receive a Growth Grant for a part of the 2020-21 income year.

If both statements apply, you may be eligible to claim your eligible R&D expenditure for the part of the income year after your Growth Grant contract ends. Find out how to apportion your eligible R&D expenditure for the RDTI on [page 64 of IR's detailed guidance](#).