



RDTI INFORMATION FOR PROJECT GRANT RECIPIENTS

If you have a Callaghan Innovation Project Grant then you are not able to claim the R&D Tax Incentive (RDTI) on any expenditure relating to the R&D activities funded by the Project Grant.

The Callaghan Innovation Project Grant is a grant from the Crown. By law, any expenditure on R&D activities that is a 'precondition to, subject to the terms of, required by, or otherwise related to a grant by the Crown or a local authority' is ineligible for the RDTI.

For a Project Grant, the ineligible expenditure is the total amount of expenditure funded by the grant and any required co-funded expenditure. 'Co-funded expenditure' is the amount the person receiving the grant agrees to fund themselves, or through other sources.

The Project Grant is calculated based on estimated expenditure at the time the application is made. Some types of expenditure, such as overseas expenses, are not eligible for the Project Grant. There are also caps on other types of expenditure - for example, overhead expenditure is 20% of internal labour costs.

In return for the funding, which is expressed as a maximum amount, the Project Grant agreement requires the grant recipient to complete the agreed R&D activities within a specified period of time, and to incur a minimum amount of co-funded expenditure.

Implicitly, the Project Grant recipient must incur whatever expenditure is necessary to complete the agreed activities within the required timeframe. As a result, *any* expenditure related to the funded activities is a precondition to, subject to the terms of, required by, or otherwise related to the Project Grant, and will be ineligible for the RDTI. **This will be the case even if the expenditure is more than was originally estimated**, whether that increase is caused by additional work or materials being required, or increases in the cost of materials, labour or services.

EXAMPLE: Project Grant Recipient Next Best Thing Ltd (NBT)

Next Best Thing Ltd (NBT) is developing a new product that it hopes will revolutionise the industry in which it operates. It has developed the concept to the stage where it needs to build and test prototypes. NBT needs to lease specialist equipment and temporary premises where the prototype will be built and tested by its own engineers. The leased premises will also be used for storage of materials used in NBT's manufacturing business. A small amount of design work will be performed overseas, and an NZ-based external contractor will also be engaged to assist in the construction of the prototype.

To fund the development, NBT applies for a Project Grant from Callaghan Innovation. Its estimates of the expenditure required to complete and test the prototypes, and the amounts approved for the Project Grant, are set out in the table below:

	Estimated Expenditure	Approved for Project Grant
Internal labour	\$50,000	\$50,000
External contractor	\$150,000	\$150,000
Materials and consumables	\$50,000	\$50,000
Rent of premises	\$30,000	\$0
Rent of equipment	\$20,000	\$20,000
Overseas costs	\$20,000	\$0
Depreciation of existing equipment	\$5,000	\$0
Overheads	\$15,000	\$10,000
Total	\$340,000	\$280,000
Project Grant (40%)		\$112,000
Minimum co-funded amount		\$168,000

Notes:

- Depreciation of existing equipment is not separately funded by the Project Grant but is included in the overhead allocation.
- Overheads are 20% of internal labour costs irrespective of the level of depreciation and overheads.
- Rent of the additional premises is not eligible for the Project Grant as the premises are not used exclusively for the R&D.
- Overseas costs are not eligible for the Project Grant.

The estimated expenditure for the R&D activities is \$340,000, of which \$280,000 is eligible for the Project Grant. Under the Project Grant funding agreement, Callaghan Innovation agrees to fund 40% of the eligible expenditure up to a maximum of \$112,000. In return for the Project Grant, NBT agrees to undertake the agreed R&D activities within a specified timeframe (1 June 2021 and 30 September 2021) and to incur the necessary expenditure to complete the agreed R&D activities.

What can be claimed under the RTI?

The total expenditure of \$340,000 incurred between 1 June 2021 and 30 September 2021 **will be ineligible** for the RTI because it is a precondition to, subject to the terms of, required by, or otherwise related to the Project Grant.

Any expenditure incurred on the development before 1 June 2021 or after 30 September 2021 **will be eligible** for the RTI if the activities performed are core or supporting activities.