

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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Chair  
Cabinet Economic Growth and Infrastructure Committee

## **BLACK HOLE TAX TREATMENT OF R&D EXPENDITURE**

### **Proposal**

1. This paper seeks the Cabinet Economic Growth and Infrastructure Committee's agreement to amendments to the Income Tax Act 2007 to address problems caused by the current "black hole" tax treatment of certain R&D expenditure.

### **Executive summary**

2. Late last year, the Government released the discussion document, *Black hole R&D expenditure*, outlining proposals to allow tax deductions for "black hole" R&D expenditure. Black hole expenditure is business expenditure that is neither immediately deductible nor depreciable for the purposes of business income tax.

3. The discussion document proposed making capitalised development expenditure part of the depreciable costs of a patent or plant variety rights. It was generally accepted that this was the appropriate way to treat this expenditure. However, submitters identified other categories of expenditure that fit within this policy framework (registered designs and copyrights applied industrially), and this paper recommends that depreciation be extended to them.

4. The discussion document proposed allowing a deduction for capitalised R&D expenditure towards an unsuccessful asset with a definable life when the asset is written off for accounting purposes. Under the initial proposals, capitalised R&D expenditure towards assets that do not have definable lives would remain non-deductible. A number of submitters were concerned that this would leave a significant category of capitalised R&D expenditure still never being deductible for tax purposes, and that this was not the appropriate treatment of expenditure on intangible assets with indefinite but finite useful lives. This paper recommends that these costs also be made deductible when the asset is written off for accounting purposes.

5. The proposed changes are taxpayer-friendly and, on a prospective basis, are expected to eliminate black hole R&D expenditure. This means that taxpayers that incur R&D expenditure will be able to deduct or depreciate that expenditure, depending on the particular circumstances. The proposed changes are expected to increase productivity and growth, as they will reduce the cases where tax rules may be discouraging R&D investments that would be undertaken in the absence of taxation.

6. We recommend that the proposed changes are announced as part of the Budget 2014 package, with enabling legislation to be included in the next available taxation bill after Budget 2014.

## Background

7. In 2012, Inland Revenue and Treasury officials carried out a review of tax settings related to innovation, in order to ensure that they are consistent with the Government's Revenue Strategy and the objectives of the Government's Business Growth Agenda.

8. The review concluded that, overall, tax settings present no major barriers to innovation and are broadly consistent with the Government's Revenue Strategy. However, one area for potential improvement concerned the possibility that some business R&D expenditure could receive so-called "black hole" tax treatment.

9. Black hole expenditure is business expenditure that is neither deductible nor depreciable for the purposes of business income tax. Specifically, business expenditure that is classified as black hole expenditure is:

- not immediately deductible; and
- not recognised (for tax purposes) as forming part of the cost of an asset that can be depreciated over time.

10. Budget 2013 contained the announcement of proposed changes to address a number of items of black hole expenditure. One of these proposed changes is to allow an immediate tax deduction for administrative and legal fees incurred for the purpose of applying for certain R&D-generated assets (patents and plant variety rights<sup>1</sup>), where no depreciable asset is ultimately created. The other proposed changes are unrelated to R&D and relieve black hole expenditure on resource consents and various company administration costs. These proposals were agreed to by Cabinet on 2 April 2013 (CAB Min (13) 10/6 refers), and are included in the Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill, which is currently at the select committee stage.

11. It was originally intended that wider proposals addressing black hole R&D expenditure would also be included in the Budget 2013 black hole expenditure changes. However, tax policy officials recommended against progressing a wider proposal to address black hole expenditure on *unsuccessful* R&D in time for Budget 2013, as there were complex issues to work through in this area. Budget Ministers subsequently decided to delay the proposals to address black hole expenditure on *both* successful and unsuccessful R&D until after officials had completed further work and consultation.

12. Following this further work, on 4 November 2013, Cabinet agreed to the release of a Government discussion document to consult on proposals to address black hole R&D expenditure (CAB Min (13) 38/1 refers). On 7 November 2013, the Government discussion document, *Black hole R&D expenditure*, was released.

13. The proposals outlined in the discussion document are complementary to, but go further than, the proposed changes to relieve black hole expenditure on patents and plant variety

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<sup>1</sup> Plant variety rights give the holder the exclusive right to produce for sale and sell propagating material of a new plant variety. In the case of certain plant varieties, they also give the exclusive commercial right to propagate the protected variety for the commercial production of fruit, flowers or other products of the variety.

rights announced in Budget 2013. They cover a wider range of expenditure, and ultimately seek to eliminate black hole expenditure on both successful and unsuccessful R&D, where appropriate.

14. In this paper, we report back on the outcome of public consultation, and make final policy recommendations.

## **Comment**

### ***Current tax rules***

15. Currently, the tax rules allow taxpayers immediate tax deductions for R&D expenditure up until the point that an intangible asset is recognised under the accounting rules. Any further development expenditure incurred must be capitalised.

16. Capitalised development expenditure can only be depreciated (that is, deducted over the life of an asset) once there is “depreciable property” under the Income Tax Act 2007. Expenditure on intangible property may only be depreciated if the item of intangible property is listed in schedule 14 of the Income Tax Act 2007. For an item of property to be listed in schedule 14, it must be intangible and have a finite useful life that can be estimated with a reasonable degree of certainty on the date of its creation or acquisition. Assets currently listed in schedule 14 that are created through R&D include patents and plant variety rights.

17. In the event that an R&D project fails to create a valuable asset, any development expenditure that has been capitalised will be rendered non-deductible (either immediately or over a period of time). Therefore, capitalised development expenditure on unsuccessful projects is non-deductible.

18. Even if the project does give rise to a valuable asset, capitalised development expenditure may still be rendered non-depreciable. This may occur because, although the expenditure has given rise to an asset that is depreciable for tax purposes, the depreciable costs of the asset have been interpreted to exclude development expenditure.<sup>2</sup> Capitalised development expenditure will also be unable to be depreciated where the expenditure has created an asset that is not depreciable for tax purposes.

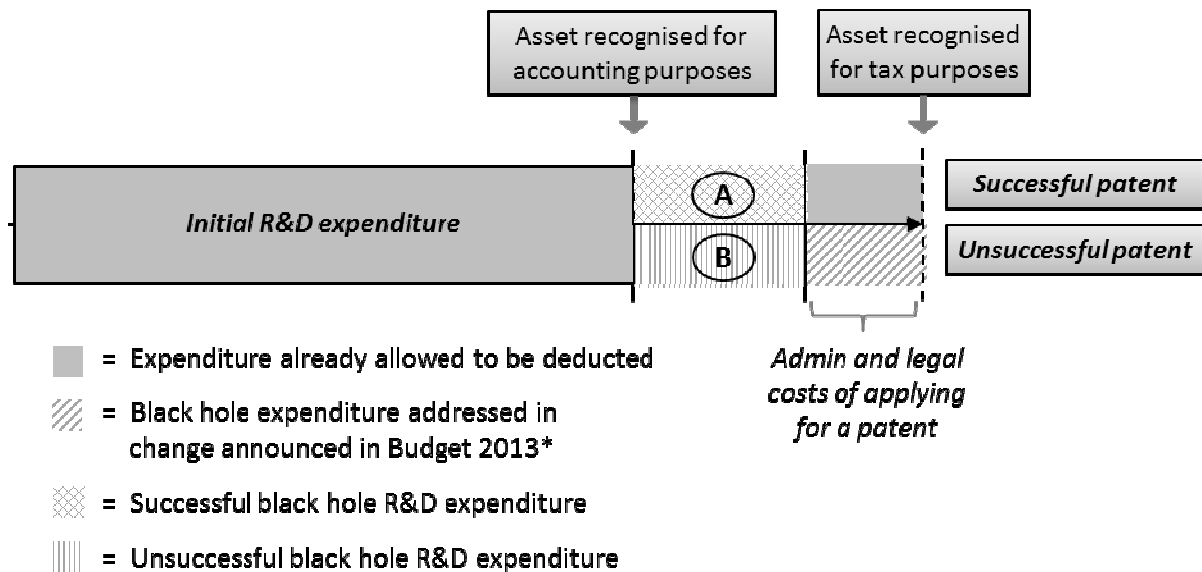
19. Figure 1 illustrates the tax treatment of expenditure incurred both successfully and unsuccessfully in attempting to create a patent – an example of an intangible asset with a certain useful life.

- The area marked “A” represents the capitalised development expenditure relating to a patented invention which is currently black hole expenditure. Proposals to make this expenditure depreciable for intangible assets with reasonably certain useful lives are discussed below in paragraphs 23 to 30.
- The area marked “B” represents the capitalised development expenditure relating to an invention for which a patent is not obtained which is currently black hole expenditure. A proposal to make this expenditure deductible where no depreciable intangible asset is created is discussed below in paragraphs 31 to 38.

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<sup>2</sup> For example, an interpretation statement issued by the Commissioner of Inland Revenue takes the view that the depreciable patent costs (for a taxpayer who has lodged a patent application with a complete specification or had a patent for an invention granted) are limited to the administrative and legal fees incurred in the patent process.

**Figure 1: Illustration of tax treatment of expenditure for patents and impact of black hole R&D expenditure proposals**



\* This expenditure is currently deductible if the patent application has been lodged.

### ***The problem***

20. Black hole tax treatment of expenditure can produce economic distortions. A taxpayer may choose to invest in an area where they can deduct or depreciate their expenditure instead of investing in an area where they cannot. If investing in the area that receives black hole tax treatment would have been the most efficient choice in the absence of taxation, the taxpayer's investment decision has been distorted by tax settings.

21. The scale of the problem cannot be quantified with any degree of precision, as officials do not have direct information on what R&D projects would have been undertaken in the absence of taxation. We note that the vast majority of R&D expenditure is already immediately tax deductible. However, there is still room for improvement. A reason for focusing on R&D is that this is consistent with the Government's Business Growth Agenda.

22. It is important to note that the aim of the proposed tax changes is not to provide a tax-subsidy for R&D but to reduce the cases where tax rules may be discouraging R&D investments that would be undertaken in the absence of taxation.

### ***R&D that creates an intangible asset with a reasonably certain useful life***

23. The discussion document proposed making *successful* capitalised development expenditure that relates to:

- an invention that is the subject of a patent or a patent application; or
- a plant variety that is the subject of plant variety rights,

depreciable over the legal life of the asset to which it relates.

24. Intangible assets can only be depreciated for tax purposes if they are listed in schedule 14 of the Income Tax Act 2007. To be listed in schedule 14, an asset must have a finite useful life that can be estimated with a reasonable degree of certainty on the date of its creation or

acquisition. The discussion document indicated that new intangible assets can be considered for inclusion in schedule 14 on a case-by-case basis.

25. There was general acceptance that the initial proposal in respect of successful R&D leading to a patent or plant variety rights was the appropriate way to treat this expenditure. However, there were calls to add new intangible assets to schedule 14 and apply the same treatment to them. Submitters called for both registered designs and copyright that has been applied industrially to be added to schedule 14, with all capitalised development costs made depreciable.

26. Design registration protects the external appearance of a manufactured article, especially those novel or original design features that can appeal to the eye of a customer. A registered design has a legal life of 15 years (assuming all rights of renewal are exercised). It therefore meets the criteria for inclusion in schedule 14. As the 15 year legal life generally commences on the date on which the first application is made (as opposed to the date on which registration is granted), if registered designs are added to schedule 14, applications for registered designs should also be added to schedule 14.

27. Section 75 of the Copyright Act 1994 contains a special exception from copyright protection in the case of an artistic work that has been applied industrially. The effect of this exception is that, once an owner of copyright in an artistic work (or a licensee) has applied the artistic work industrially (as defined in the section), within New Zealand or overseas, their copyright protection will only last for a further 16 years (in the case of product designs and casting moulds) or 25 years (in the case of works of craftsmanship). This time limit makes the copyright in an artistic work that has been applied industrially appropriate for inclusion in schedule 14.

28. Accordingly, we recommend making the following intangible assets depreciable (over their legal lives) by adding them to schedule 14:

- registered designs (and applications for registered designs); and
- copyright in an artistic work that has been applied industrially.

29. If registered designs are made depreciable, we recommend that an immediate tax deduction be allowed for expenditure incurred for the purpose of applying for the grant of registration of a design if registration is not obtained because the application is not lodged or is withdrawn, or because registration is refused. This would parallel the treatment of unsuccessful patent applications.

30. We recommend that capitalised development expenditure that relates to an asset that is listed in schedule 14 be made part of the depreciable costs of the asset, for taxpayers who have developed the asset. This will relieve black hole expenditure on successful depreciable R&D-generated assets.

### ***R&D that does not create a depreciable intangible asset***

31. The discussion document proposed allowing an immediate tax deduction for capitalised R&D expenditure that results in an *unsuccessful* asset, providing certain criteria are met. These criteria essentially restricted the proposed tax deduction for unsuccessful R&D to expenditure that would have been depreciable if the R&D had been successful. This meant that capitalised R&D expenditure that relates to an intangible asset with an indefinite useful life (that is, an asset that is *not* listed in schedule 14) would remain black hole expenditure.

32. Many submitters were concerned that the initial proposals would still leave a significant category of capitalised R&D expenditure never being deductible for tax purposes, and were of the view that this was not the appropriate tax treatment of this expenditure. These submitters wanted the scope of the proposals widened to provide tax deductibility for – both successful and unsuccessful – capitalised development expenditure towards intangible assets that are *not* listed in schedule 14 of the Income Tax Act 2007.

33. It would be inappropriate, from an economic perspective, to allow tax deductibility for expenditure towards creating an asset that would not have been likely to have a finite life if successful. Not allowing a deduction for losses in this situation is the counterpart of not taxing capital gains.

34. We recognise, however, that technology tends to move at a relatively fast pace and that it is likely that R&D-generated assets will have limited lives, even if those lives are not capable of being estimated with a reasonable degree of certainty at the time of the asset's creation. We are therefore sympathetic towards the submitters' concern.

35. While capitalised expenditure on successful R&D can lead to an asset that is worth more for a period than the amount of capitalised expenditure, so that there is a gain going untaxed, failing to allow any deduction for capitalised expenditure on an asset that can only have a finite life appears harsh.

36. In order to respond to submitters' concern, our officials considered and provided advice on alternative options that would eliminate black hole R&D expenditure on a prospective basis. Our view as to the best way to do this is to allow a one-off tax deduction for capitalised R&D expenditure that relates to an intangible asset that is *not* listed in schedule 14 upon the intangible asset being written off for accounting purposes (more specifically, upon the asset being *derecognised* under the accounting rules, other than due to its disposal). This would apply irrespective of whether the asset was useful for a period or a completely unsuccessful investment. Restricting deductions to when an asset has been written off for accounting purposes restricts deductions to cases where it is clear that the expenditure is of no on-going value.

37. Our recommended approach is more taxpayer-friendly than the initial proposal outlined in the discussion document. The main advantage of our recommended approach is that, on a prospective basis, we expect it will eliminate black hole R&D expenditure, whereas the initial proposal would leave a significant category of capitalised R&D expenditure never being deductible for tax purposes. Another advantage of our recommended approach is that, because of the wider ambit of capitalised R&D expenditure that it allows to be deducted, it provides a major simplification. This is because it removes the need to devise criteria to ensure that any deduction for unsuccessful R&D is appropriately targeted to expenditure that would have been depreciable if the R&D had been successful.

38. A risk with our recommended approach is that it will place additional pressure on the definition of R&D and Inland Revenue's ability to monitor the line between capitalised R&D expenditure and other capitalised expenditure. Only capitalised expenditure on R&D (based on the definition of R&D in the accounting standard) would be eligible for the one-off tax deduction upon write-off. Capitalised expenditure that does not fall within this definition would not qualify for the deduction. Taxpayers would therefore have an incentive to claim that capitalised expenditure was on R&D even if it did not meet the definition of R&D. However, both the existing rules and the initial proposal require Inland Revenue to monitor

the boundary between R&D expenditure and other expenditure, so the new proposal would only place additional pressure as opposed to creating the pressure. Inland Revenue considers that this risk is manageable.

### ***Transitional approach***

39. The discussion document outlined several options for transitioning to the proposed new rules. These options ranged from targeting the proposals to new R&D spending only, through to also allowing pro-rated depreciation deductions for capitalised R&D expenditure that relates to existing assets.

40. We recommend only allowing capitalised expenditure incurred from the date of the release of the Government discussion document, *Black hole R&D expenditure*, (that is, from 7 November 2013) to be eligible for deductibility under the proposed changes. The discussion document indicated that this was the Government's favoured option. While some submitters expressed support for transitional options that would allow additional historical R&D expenditure to qualify for tax deductibility under the proposed changes, we do not consider that there are compelling reasons to allow that. Our recommended approach targets the proposals to new R&D spending only and does not give windfall gains to those who have incurred sunk costs. Therefore, the fiscal cost incurred as a result of the proposed changes will be more closely aligned with the Government's objective of increasing new business R&D. The other options are estimated to be considerably more fiscally expensive over the forecast period, but would provide limited additional benefit in reducing the bias that those who have incurred sunk costs have towards selling the resulting asset over continuing to hold it.

### ***Integrity measures***

41. The discussion document proposed that, if a deduction is to be provided for unsuccessful capitalised R&D expenditure, there should be the following integrity measures:

- In the event that a failed asset from an abandoned R&D project (which has had capitalised development expenditure deducted) is sold, the capitalised development expenditure previously allowed as a deduction (or the sale proceeds, if this amount is lower) should be clawed back as income.
- In the event that a failed asset from an abandoned R&D project (which has had capitalised development expenditure deducted) becomes useful, the capitalised development expenditure previously allowed as a deduction should be clawed back as income, with the clawed-back amount able to be depreciated over the estimated useful life of the asset if the asset is depreciable.

42. Some submitters expressed concerns around the practicality and complexity of clawing back expenditure for failed assets that subsequently become useful.

43. We consider that the proposed claw-back rule for expenditure on failed assets that subsequently become useful is an important integrity measure. If taxpayers were able to receive an immediate deduction for expenditure that has created what turns out to be a useful asset, they would receive a significant advantage. The proposed claw-back rule reduces this advantage and ensures greater economic neutrality and consistency with the treatment of expenditure that has created an asset that has always been regarded as successful. Without the claw-back rule, there would be a risk of taxpayers manipulating the system.



44. If one-off tax deductions are to be made available in the case of successful non-depreciable R&D-generated assets upon the intangible asset being written off for accounting purposes, we recommend that the proposed claw-back rules also apply to these assets.

### ***Successful software development***

45. The discussion document also proposed that the Income Tax Act 2007 be amended to clarify that capitalised expenditure incurred by a taxpayer in the successful development of software for use in their own business is depreciable. To provide certainty for taxpayers, the discussion document proposed that this amendment be made retrospective to the statutory time-bar.

46. The submitters that commented on this proposal were unanimous in their support for it.

47. This proposed amendment will clarify the law to be in line with the policy intent and Inland Revenue's understanding of current taxpayer practice. We recommend that the proposed amendment proceed.

### ***Minor or consequential amendments***

48. We seek delegated authority be given to the Minister of Revenue to make any minor or consequential amendments to the rules necessary to ensure the effective implementation of the proposed changes.

## **Consultation**

49. Public consultation on the Government's proposals to address black hole R&D expenditure was carried out via the release of a Government discussion document on 7 November 2013. Twelve submissions were received in relation to the discussion document. The submissions were generally supportive of the intent of the proposals to relieve black hole R&D expenditure. However, as discussed above, many submitters wanted the scope of the proposals widened to provide tax deductibility for – both successful and unsuccessful – capitalised development expenditure towards intangible assets that are *not* listed in schedule 14 of the ITA. After considering this feedback, we widened the scope of the proposals to provide tax deductibility for these expenditures.

50. The Treasury, Inland Revenue and the Ministry of Business, Innovation and Employment have been consulted and they concur with the contents of this paper.

## **Financial implications**

51. Preliminary cost estimates previously provided indicated that the initial proposal in relation to successful R&D would have a fiscal cost of approximately \$1 million in the first full fiscal year post-implementation, gradually rising to at least \$19 million per annum after 20 years, and that the initial proposal in relation to unsuccessful R&D would have an estimated fiscal cost of \$3 million per annum on average over the 10 years from implementation (CBC (13) 51 refers).

52. Given the modifications to the policy proposals, and in light of additional information received from consultation, fiscal cost estimates have been refined. Agreeing to the recommendations in this paper will have estimated fiscal costs, as per the following table:

Vote Revenue Minister of Revenue	\$m increase / (decrease)				
	2013/14	2014/15	2015/16	2016/17	2017/18
Tax Revenue	-	(0.700)	(2.700)	(4.100)	(5.600)

53. The fiscal costs will likely gradually increase in out-years depending on the level of R&D activity, and will likely be around \$13 million in the 2024/25 fiscal year. These estimated fiscal costs are slightly lower than preliminary indications. These costs will be funded through the tax policy scorecard.

54. The above estimate of fiscal costs should be treated with some caution. Due to lack of source data and limited relevant additional information provided by submitters, significant assumptions were made in developing the estimate, for example:

- the stock of capitalised R&D expenditure;
- the percentage of capitalised R&D expenditure that will be depreciated; and
- the R&D failure rate.

55. Inland Revenue has carried out sensitivity analysis around some of the assumptions and the fiscal costs do not vary materially.

### **Administrative implications**

56. The proposals have no systems implications for Inland Revenue but may result in some additional administrative costs, such as costs associated with publications to communicate the changes. These costs are expected to be insignificant and would be met within existing baselines.

### **Compliance implications**

57. The proposed changes are taxpayer-friendly, but will impose some additional compliance costs on businesses that wish to avail themselves of the proposed increased allowance of tax deductions for R&D expenditure. These additional compliance costs are associated with:

- complying with a higher accounting standard than the new minimum requirements;<sup>3</sup>
- claiming a deduction for expenditure that previously would have been non-deductible; and
- application of the proposed claw-back rules for written off assets that become useful or are sold.

<sup>3</sup> When the Financial Reporting Act 2013 comes into effect on 1 April 2014, minimum financial reporting requirements will be reduced for many businesses. The current tax provisions that allow a tax deduction for R&D expenditure, and the proposal to allow a tax deduction for taxpayers who have developed intangible assets that are not depreciable for tax purposes, are linked to particular accounting standards.

58. However, these additional compliance costs would only be imposed on those businesses that wish to avail themselves of the proposed increased allowance of tax deductions for R&D expenditure. Therefore, businesses would only incur these additional compliance costs in cases where they consider that the benefit to them of the increased allowance of deductions outweighs the costs. Furthermore, we consider that the proposed claw-back rules are important integrity measures which would not be expected to often require application.

### **Human rights**

59. There are no inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993 arising from any of the proposals.

### **Legislative implications**

60. The proposals will require amendments to the Income Tax Act 2007. These changes would be included in the next available taxation bill after Budget 2014.

61. With the exception of the proposed amendment to clarify the depreciability of software, we recommend that the proposed changes take effect from the 2015/16 income year.

### **Regulatory impact analysis**

62. The Regulatory Impact Analysis requirements apply to the proposals. A Regulatory Impact Statement (RIS) is attached.

63. The Quality Assurance reviewer at Inland Revenue has reviewed the *Black hole tax treatment of research and development expenditure* RIS and considers that the information and analysis summarised in it meets the quality assurance criteria of the Regulatory Impact Analysis framework.

### **Publicity**

64. Assuming that Cabinet approves the proposed changes to provide tax deductibility for R&D expenditure that is currently black hole expenditure, we intend to publicly announce the proposed changes as part of the Budget 2014 package.

### **Recommendations**

65. It is recommended that the Committee:

1. **Note** that the current tax rules may distort businesses' R&D investment decisions because capitalised R&D expenditure is neither deductible nor depreciable.
2. **Note** that initial proposals to address the current distortions were consulted on late last year via the release of a Government discussion document, *Black hole R&D expenditure* (CAB Min (13) 38/1 refers).

***R&D that creates an intangible asset with a reasonably certain useful life***

3. **Agree** to make copyright in an artistic work that has been applied industrially depreciable (over its legal life) by adding it to schedule 14 of the Income Tax Act 2007.
4. **Agree** to make registered designs (and applications for registered designs) depreciable (over their legal lives) by adding them to schedule 14 of the Income Tax Act 2007.
5. If recommendation 4 is agreed to:  
  

**Agree** to allow an immediate tax deduction for expenditure incurred for the purpose of applying for the grant of registration of a design if registration is not obtained because the application is not lodged or is withdrawn, or because registration is refused.
6. **Agree** to include capitalised development expenditure that relates to an asset that is listed in schedule 14 of the Income Tax Act 2007 as part of the depreciable costs of the asset, for taxpayers who have developed the asset.

***R&D that does not create a depreciable intangible asset***

7. **Agree** to allow a one-off tax deduction for capitalised R&D expenditure upon the intangible asset to which it relates being written off for accounting purposes, for taxpayers who have developed intangible assets that are not depreciable for tax purposes.

***Transitional approach***

8. **Agree** to allow only capitalised expenditure incurred from the date of the release of the Government discussion document, *Black hole R&D expenditure*, (that is, from 7 November 2013) to be eligible for deductibility under the changes in recommendations 3, 4, 6 and 7.

***Integrity measures***

9. **Agree** that, in the event that an intangible asset that has been written off for accounting purposes becomes useful, any capitalised development expenditure previously allowed as a tax deduction be clawed back as income, with the clawed-back amount able to be depreciated over the estimated useful life of the asset if the asset is depreciable.
10. **Agree** that, in the event that an intangible asset that has been written off for accounting purposes is sold, any capitalised development expenditure previously allowed as a tax deduction (or the sale proceeds, if this amount is lower) be clawed back as income.

***Application date***

11. **Agree** that the changes in recommendations 3 to 10 take effect from the 2015/16 income year.

***Financial implications***

12. **Note** that agreeing to the above recommendations will have estimated fiscal costs, to be funded through the tax policy scorecard, with a corresponding impact on the operating balance, as per the following table:

<b>Vote Revenue Minister of Revenue</b>	<b>\$m increase / (decrease)</b>				
	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Tax Revenue	-	(0.700)	(2.700)	(4.100)	(5.600)

***Successful software development***

13. **Agree** to amend the Income Tax Act 2007 to clarify that capitalised expenditure incurred by a person in the successful development of software for use in their own business is depreciable, with effect from the statutory time-bar.

***Legislative vehicle***

14. **Agree** that enabling legislation to give effect to the changes agreed to in the above recommendations be included in the next available taxation bill after Budget 2014.

***Other matters***

15. **Delegate** authority to the Minister of Revenue to make any minor or consequential amendments to the rules necessary to ensure effective implementation of the changes in the above recommendations.
16. **Invite** the Minister of Revenue to instruct Inland Revenue to draft legislation so as to give effect to the changes in the above recommendations.

**Hon Steven Joyce**  
Minister of Science and Innovation

**Hon Todd McClay**  
Minister of Revenue

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Date

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