

The Treasury

Budget 2018 Information Release

Release Document August 2018

<https://treasury.govt.nz/publications/information-release/budget-2018-information-release>

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[2]	to avoid prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or any agency of such a Government	6(b)(i)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
[29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[40]	not in scope	
[41]	that the making available of the information requested would be contrary to the provisions of a specified enactment	18(c)(i)
[42]	information is already publicly available or will be publicly available soon	18(d)

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2018/953

File No.SH-13-5

Date: 6 April 2018

To: Minister of Finance (Hon Grant Robertson)

Deadline: Wednesday, 11th April 2018

Aide Memoire: Research and Development Tax Incentive Discussion Document

On 11 April 2018, the Minister of Research, Science and Innovation and the Minister of Revenue will seek approval from the Cabinet Economic Development Committee (DEV) to publish the Research and Development (R&D) tax incentive discussion document (*Fuelling Innovation to Transform Our Economy*) for public consultation.

This note updates you on the progress of the R&D tax incentive since your meeting with the Minister of Research, Science and Innovation and the Minister of Revenue on 19 March 2018 (T2018/666 refers). This note covers:

- Design of the R&D tax incentive;
- Fiscal cost and risk, and;
- Next steps

Design of the R&D tax incentive

The discussion document outlines the tax incentive's main design features, including: rate, eligibility, R&D activities, eligible expenditure, minimum threshold, maximum cap and accountability measures. Overall, the Treasury supports the design outlined in the discussion document.

Some design features are not outlined in the discussion document and are still being developed by officials. These design features may influence the fiscal cost, risk and fiscal sustainability of the tax incentive:

- Transitioning current Growth Grant recipients to the tax incentive: it is important that this transition is stable for businesses to retain investment in R&D. The length of the transition will influence costs as Growth Grants are at a higher rate than the tax incentive.
- Supporting loss-making firms: options to support businesses in loss include refundability of the tax credit and an alternative grant system. Refundability through the tax system increases fiscal risk, by increasing the incentive to manipulate the credit. Therefore alternative means of support should be considered. At DEV you may wish to raise how we can support firms in loss while managing fiscal risk.

- Evaluating and monitoring the tax incentive: this will allow the scheme to remain fiscally sustainable and ensure it is delivering outcomes. You may wish to reinforce the importance of a clear evaluation and monitoring plan at DEV.

Officials will report to Ministers on these features in mid-June when final design decisions are sought.

Fiscal cost and risk

Cost: the current forecast cost of the tax incentive is \$1.02 billion operating over the forecast period. These costs are based on the design outlined in the discussion document. This funding, and \$4.3 million for Inland Revenue to implement the incentive, is included in the significant package for Budget 2018.

Risks: an R&D tax incentive carries an uncapped fiscal risk. As advised in our previous briefing (T2018/666 refers) and noted above, decisions on the credit's design will affect the final cost and risks of the policy. We consider another key fiscal risk is the potential for businesses to recharacterise expenditure.

[26]

It is important to be aware of fiscal costs and risk when making final design decisions ensure the credit can be delivered effectively while meeting Budget Responsibility Rules.

Next Steps

The discussion document's suggested launch date is 17 April 2018 with consultation until 29 May.

The Treasury will work with MBIE, IR and Callaghan to develop final policy design recommendations to submit to Ministers by mid-June, to incorporate into legislation.

Danielle Lucas, Graduate Analyst, Business Growth and Innovation, [39]
Matthew Gilbert, Manager, Business Growth and Innovation, [39]