9 July 2020

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Sir/Madam,

Questions on Notice for the Senate Standing Committee on Economics on the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019*

The Australian Investment Council welcomes the opportunity to provide further details on the Research and Development (R&D) regimes in Singapore and New Zealand as requested during the recent hearing by the Committee on the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019*.

Details of R&D provisions in these jurisdictions are outlined below.

If you have any questions about the R&D regimes in Singapore and New Zealand, please do not hesitate to contact me or Brendon Harper, the Australian Investment Council's Head of Policy and Research, on [redacted]

Yours sincerely

[redacted]

Yasser El-Ansary
Chief Executive

Recent Developments[1]

United Kingdom

In June 2020, the UK government launched an R&D roadmap and recommitted to increasing public investment in R&D to £22 billion by 2024-25, originally announced in the last budget.

Singapore[2]

Singapore has committed $S20 billion in R&D over the next five years, which will fund scientific research and boost innovation and commercialisation.

New Zealand

The New Zealand government has announced more than NZ$401 million will go towards R&D including $NZ150 million for a new R&D loan scheme and $NZ196 million for crown research institutes.

Singapore

Names of Incentives	Enhanced R&D Deductions	RISC, IDS and FSTI cash grants	Double tax deductions for R&D expenses
Types of incentives	Super deduction	Cash grants	Super deduction

Tax incentives

The tax deduction for qualifying R&D expenditure incurred on qualifying R&D projects performed in Singapore has recently increased from 150% to 250% from year of assessment 2019 to 2025. All other conditions of the scheme remain unchanged.

The government offers an enhanced 250% tax deduction for qualifying R&D expenditures on R&D activities performed in Singapore between 2009 to 2025. All other R&D activity is subject to a 100% tax deduction.

Singapore does not apply a cap on expenditure.

Government grants

Government grants are also available to cover a portion of costs for approved R&D projects undertaken in Singapore.

Some of the common grants applicable to R&D, such as the Research Incentive Scheme for Companies (RISC), Innovation Development Scheme (IDS) and Financial Services Technology Innovation (FSTI) grant are Government cash grant co-funds to encourage and assist companies in setting up R&D centres in Singapore and developing their in-house R&D capabilities. The support is typically 30% to 50% of total qualifying costs, such as manpower-related costs, equipment and materials, professional services and intellectual property rights. The grants have been provided selectively to innovation labs/ centres and large projects in certain strategic technology areas identified by the Singapore Government. However, projects awarded the cash grant are not announced or made public. Taxpayers are required to seek preapproval in order to obtain the incentive.

---

[1] Australia falls behind on R&D recovery, *InnovationAus*, 6 July 2020
[2] Singapore to commit $20 billion in R&D over next five years, *The Edge* 20 June, 2020

Guidelines around incentive applications RISC, IDS and FSTI are applicable for future investments and, typically, approval is granted only on projects that have not commenced.

Cash grants

There is no specific definition of R&D for cash grants. Eligible expenditures typically include manpower-related costs, equipment and materials, professional services and intellectual property rights. There is no eligibility restriction on specific industries. However, as it is a discretionary incentive, grants are provided selectively to R&D labs/ centres and large projects in certain strategic technology areas identified by the Singapore Government.

IP and jurisdictional requirements (patent box regime)

The Intellectual Property Development Incentive (IDI) was introduced with effect from 1 July 2018 to encourage the use and commercialisation of IP rights arising from R&D activities. An approved IDI company is eligible for a reduced corporate tax rate of either 5% or 10% on a percentage of qualifying IP income derived during the qualifying incentive period. The IDI is aligned to the OECD modified nexus approach and uses R&D expenditures incurred by the approved company (includes outsourced third-party R&D expenditures and R&D undertaken by the company itself) as a proxy to determine the level of benefits accorded under the IDI.

Qualifying IP income includes royalties or other income receivable by the approved IDI company as consideration for the commercial exploitation of qualifying IP rights (IPR) (i.e., patents and copyrights subsisting in software) elected into the IDI. As the IDI is a discretionary incentive administered and awarded by the Singapore Economic Development Board, eligible companies are required to fulfill substantive commitments in areas of business spending, fixed assets expenditures, skilled jobs and the requisite qualitative aspects such as contributing to the advancement of capabilities and other ancillary economic spin-offs for the wider Singapore economy.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Singapore.

Role of governmental bodies in administering incentives

The expenditure claimed is processed by the Singapore tax authority — the Inland Revenue Authority of Singapore (IRAS) — for the enhanced R&D deduction. The IRAS also monitors the activities that are claimed to ensure compliance with the enhanced R&D deduction regime. The Singapore Economic Development Board (EDB) administers discretionary incentives, including cash grants and the double tax deduction, while the Monetary Authority of Singapore (MAS) administers the FSTI cash grant.

Administrative requirements

Companies are not required to seek government preapproval for the enhanced R&D tax deduction. For the other discretionary tax incentives, approval must be granted by the EDB (MAS for the FSTI grant). To be eligible for the enhanced tax deduction, a company must submit the claim in its income tax return and tax computation with the completed R&D claim form, by the annual filing deadline of 30 November (or 15 December if submitting the income tax return electronically). All claimants are required to complete an R&D claim form, which includes a detailed description of each R&D project claimed based on prescribed guidelines. If a company wishes to claim more than 60% of the sum payable to an R&D organization or a CSA as eligible R&D expenditures, the claimant must submit to the IRAS copies of invoices issued by the R&D organisation detailing a breakdown of the expenditure items.

For the R&D cash grant, companies must submit documentation in relation to making claims and reporting on the progress of the project. Claims may be made on a quarterly basis using the prescribed format as provided by the relevant authority once the R&D cash grant has been awarded. Companies are also required to submit a yearly progress report and a final report at the end of the project.

For the double tax deduction for R&D expenses, companies must, in the first year of assessment when a new tax incentive commences, complete and submit with their income tax return, the Evaluation Checklist for a Company Awarded with Tax Incentive(s) form. For subsequent years of assessment, the completed checklists are required to be submitted only when requested by the IRAS.

For certification, the EDB (MAS for FSTI) must grant approval for the discretionary incentives. For discretionary incentives, in addition to the negotiation process, the relevant application forms must be completed. These forms are not publicly available but will be provided by the EDB/ MAS during the negotiation process.

New Zealand

Names of Incentives	R&D Tax incentive	R&D loss tax offset	R&D grants
Types of incentives	Tax credit	Refundable tax credit	Cash grant

Businesses can claim a 15% tax incentive on eligible R&D expenditure from the start of their 2019/20 income year.

The introduction of the R&D tax incentive in 2019 is moving New Zealand's support for R&D from a grants-based system to a tax-based approach. The R&D Growth Grant is being phased out over the next two years.

R&D tax incentive eligibility requirements

To claim the R&D tax incentive, an eligible business must be incurring eligible expenditure on an eligible R&D activity.

Eligible businesses – businesses, regardless of legal structure, will be eligible if they have a fixed establishment in New Zealand. State Owned Enterprises, joint ventures, industry research cooperatives and entities which are not controlled by Crown Entities will also qualify.

Eligible activities – qualifying R&D activities must involve a systematic approach to resolve scientific or technological uncertainty with the intent of creating new knowledge, or new or improved goods, services and processes. Uncertainties which can be resolved by using knowledge that is publicly available or could be readily deduced by a competent professional in the related field will not suffice.

Eligible expenditure – a business will generally need to incur a minimum of $50,000 of R&D **expenditure** per year. Eligible R&D expenditure covers a broad range of actual R&D costs, but some expenditure exclusions apply. The tax incentive is generally capped at $120 million of R&D expenditure per year. Up to 10% of total R&D expenditure can relate to overseas activities.[3]

The government announced a commitment to raise New Zealand's R&D expenditure to 2% of GDP over 10 years. To help achieve this goal, it introduced an R&D tax incentive which applies from the start of a business's 2019-20 income year. Most businesses operating within New Zealand should be eligible to claim a

---

[3] EY Tax Watch Edition 2, May 2019

credit at a rate of 15% if they incur expenditures on qualifying R&D activities. While limited refundability is currently only available in the 2019-20 income year for companies in a tax loss position, the Government intends to expand refundability from the 2020-21 income year.

The R&D loss tax offset was introduced in 2015. It is intended to allow businesses with an R&D focus to refund tax losses resulting from R&D expenditures. Eligible companies are allowed to cash out up to 28% of any tax losses associated with their eligible R&D activities, subject to the restrictions specified below. The R&D grants regime is a targeted R&D incentive aimed at increasing long-term economic growth by providing funding to businesses with eligible R&D activities. The R&D grants regime consists of the Growth, Project and Student grants. The Growth Grant, however, is being phased out by 31 March 2021 with the introduction of the R&D tax incentive. Businesses that receive a Growth Grant are ineligible for the R&D tax incentive.

R&D tax incentive

- A 15% tax credit is available to most businesses undertaking R&D in New Zealand.
- R&D expenditures of NZD50,000 to NZD120 million per year will typically qualify (pathways exist to spend more or less but specific requirements apply).
- Foreign-owned R&D can qualify as long as the overseas associate resides in a jurisdiction that has a double tax agreement with New Zealand.
- Up to 10% of expenditures per year can be incurred outside New Zealand.
- R&D tax credits can be refunded in cash for certain high-R&D-intensity companies in a tax loss position. For the 2019-20 income year, the maximum cash refund a business can receive is NZD255,000 (NZD1.7 million of R&D expenditures).
- Remaining R&D credits may be carried forward indefinitely.

R&D loss tax offset

To be eligible, a company must be an unlisted tax lossmaking resident of New Zealand that spends at least 20% of labour expenditures on qualifying R&D.
A company may cash out the lesser of:

- The legislative cap (which started at NZD500,000 for 2015-16 and is increasing by NZD300,000 a year until 2021-22, when it is capped at NZD2 million)
- A company's net loss for the year • A company's total eligible R&D expenditures for the year, or 1.5 x a company's eligible R&D labour costs for the year

Certain events may trigger the repayment of any offset received. These events can include the sale of R&D assets or the liquidation, migration or sale of a company.

R&D grants

Callaghan Innovation – the government's innovation agency – is currently offering two R&D grant programs: Project Grants and Student Grants.

- **Project Grants** are aimed at assisting businesses undertaking R&D for the first time. Businesses can receive multiple Project Grants. The grants normally provide funding of 40% of eligible R&D expenditures on a project. Project amounts beyond NZD800,000 are funded at 20%. •
- **Student Grants** are aimed at helping university students gain and develop skills in a business with an ongoing R&D program. • Growth Grants have been discontinued with the introduction of the R&D tax incentive. While a transition period applies, no new Growth Grants are being awarded.

R&D tax incentive eligibility requirements

Eligible businesses

- Businesses cannot be controlled by a Crown Research Institute, District Health Board or Tertiary Research Organisation.

- A business needs to perform a core R&D activity in New Zealand and own the results or be able to use the results of the R&D activities without further consideration. Eligible activities Eligible R&D activities include "core" or "supporting" activities. Core R&D activities utilise a systematic approach to generate new knowledge or a new/improved good, process or service and require the resolution of a scientific or technological uncertainty.
- Core R&D activities must occur in New Zealand. Supporting activities include other activities that are solely or mainly in support of and integral to a core R&D activity.

Eligible expenditures

Eligible expenditures include most costs incurred on an eligible R&D activity. This typically includes salaries, materials, contractor payments and depreciation loss incurred on R&D assets while used in R&D. Expenditure on the development of internal use non-administrative software development is capped at NZD25 million per year. Ten percent of the total R&D expenditure can be incurred overseas.

R&D loss tax offset

New Zealand-resident unlisted loss-making companies that meet certain wage intensity criteria are eligible. The NZ IAS 38 definition of R&D applies, subject to certain activity and expenditure exclusions. The R&D loss tax offset regime and the new R&D tax incentive are not mutually exclusive but currently have different R&D definitions and eligibility criteria. The government may ultimately reconcile these incentives to aid usability and reduce administrative complexity.

R&D grants

Eligibility requirements are specific to each grant.

IP and jurisdictional requirements

R&D tax incentive: IP resulting from R&D activities must be owned by the company, an associate that resides in a jurisdiction that has a double tax agreement with New Zealand, or the company must have access to the R&D results at no further consideration. Where applicable, the IP requirements can be met by a joint venture.

R&D loss tax offset

IP resulting from R&D activities must vest (solely or jointly) in the company.

R&D grants

There are no specific IP requirements.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in New Zealand.

Role of governmental bodies in administering incentives

The R&D tax incentive and R&D loss tax offset regimes are administered by Inland Revenue. The R&D grants are administered by Callaghan Innovation.

Administrative requirements

R&D tax incentive: For the 2019-20 income year, businesses must complete a supplementary form with their end-of-year income tax return. For the 2020-21 income years onward, businesses that are likely to spend less than NZD2 million of R&D activities must apply for in-year approval of their R&D activities before completing a year-end supplementary form with their income tax return. Businesses that spend NZD2 million or more on R&D activities can opt out of the in-year approval process, but will need to obtain a certificate that their R&D activities and expenditures meet the requirements of the R&D tax incentive. This R&D certificate will need to be submitted alongside a business' supplementary form. R&D loss tax offset: Applications must be made by the due date of a company's corresponding income tax return. R&D grants: Requirements depend on the

Australia

Name of incentive	R&D Tax Incentive
Type of incentive	Tax credit

The Government introduced R&D incentives programs to encourage Australian industry to undertake R&D activities, putting in place an overall environment that supports the increased commercialisation of new process and product technologies developed by eligible companies. The current R&D Tax Incentive regime has been in operation since 2011, superseding the previous R&D Tax Concession regime introduced in 1986. Currently, a 43.5% refundable tax offset is available to eligible R&D entities with aggregated turnover of less than AUD20 million per year. A non-refundable 38.5% tax offset is available for all other eligible R&D entities. Foreign-owned R&D may qualify for the 38.5% or 43.5% tax offset depending on its aggregated turnover.

The rate of the R&D tax offset is reduced to the company tax rate for that portion of an entity's notional R&D deductions that exceed $100 million for an income year. This applies to assessments for income years starting on or after 1 July 2014 and before 1 July 2024.[4]

Description of benefits

- A 43.5% refundable tax offset is available for eligible R&D entities with aggregated turnover of less than AUD20 million per year.
- Aggregated turnover includes the ordinary income of all entities connected with (i.e., 40% or greater control) or affiliated with the R&D entity.
- A non-refundable 38.5% tax offset is available for all other eligible R&D entities.
- Foreign-owned R&D can qualify for the 38.5% or 43.5% tax offset depending on its aggregated turnover.
- An R&D entity (defined as the head of a tax consolidated group or a stand-alone company) cannot claim the 43.5% refundable tax offset or the 38.5% non-refundable tax offset in respect of R&D expenditures over AUD100 million. This cap applies annually to an R&D entity's R&D expenditure. R&D expenditures over AUD100 million can be claimed as a tax offset against the corporate tax rate (currently 30%).
- Unused tax credits may be carried forward indefinitely.

Guidelines around incentive applications

The R&D Tax Incentive program is applicable to current investments. Claiming the benefit is a two-part process:

- The R&D activities are registered by lodging an application with AusIndustry.
- The R&D Tax Incentive Schedule is lodged in the company tax return using a unique registration number from AusIndustry.

Companies are required to register eligible R&D activities within 10 months of the end of the income year in which the activities were conducted.

Eligibility requirements

[4] Australian Tax Office, Research and Development Tax Incentive

Eligible R&D activities are categorised as either “core” or “supporting” R&D activities. Generally, only R&D activities undertaken in Australia qualify for the new R&D Tax Incentive program. Core R&D activities are broadly defined as experimental activities whose outcome cannot be known and that are conducted for the purpose of acquiring new knowledge. Supporting activities may also qualify if they are undertaken to directly support the core R&D activities. Exceptions that are required to pass a higher dominant purpose test are supporting R&D production trials and other “excluded” activities as defined. Software-related projects may also be core or supporting R&D activities unless their dominant purpose is one of internal administration, in which case they will be classified as excluded activities. An additional eligibility test may apply.

An eligible expenditure is defined as an expenditure incurred by an eligible company during an income year, including contracted expenditures, salary expenditures and other expenditures directly related to R&D. Expenditures for R&D such as feedstock input costs, tax depreciation for assets used in R&D activities and an expenditure that is included in the cost base of an intangible depreciating asset for income tax purposes can be claimed. Core technology, interest expenses, some plant and equipment costs, and costs that form part of a tangible depreciating asset for income tax purposes are not eligible.

To be eligible, companies must be either incorporated in Australia or foreign companies resident in a country that has a double taxation treaty with Australia carrying on business through a permanent establishment in Australia. An entity whose entire income is exempt from income tax is not eligible. No industry sectors are specifically excluded.

IP and jurisdictional requirements

Generally, companies must demonstrate that R&D activities are undertaken on their own behalf in order to claim the incentive. Activities conducted by the R&D entity for one or more foreign corporations that are related to the R&D entity (called foreign-owned R&D) may qualify for the R&D Tax Incentive, provided the R&D contract arrangement is undertaken with a company resident in a country with which Australia has a double taxation agreement and in accordance with a written agreement between the Australia entity and the foreign-related company. Eligibility of work performed outside the country requires pre-approval through an Overseas Finding Application. However, this is only available to Australian-owned R&D activities, not foreign-owned R&D activities. The intellectual property (IP) regimes are effective from 1 July 2011. Foreign-owned R&D activities must be undertaken in Australia and cannot be undertaken overseas. An overseas finding cannot be applied for in respect of foreign-owned R&D activities.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Australia.

Role of governmental bodies in administering incentives

The R&D Tax Incentive operates on a self-assessment basis and is jointly administered by the Australian Taxation Office (ATO) and AusIndustry. AusIndustry regulates and monitors compliance activities in the assessment of the technical eligibility of activities, while the ATO regulates and undertakes compliance activities in relation to notional deductions and correlated tax offsets.

Administrative requirements

Companies must register annually with AusIndustry within 10 months of the relevant corporate financial year-end. An advance finding ruling process is available, which enables companies to seek certainty on a project. An advance ruling provides companies with eligibility certainty for a period of up to three years.
Companies must maintain contemporaneous records to substantiate their R&D Tax Incentive claim. The company’s records must be sufficient to show that the claimed activities took place and that they meet all aspects of the definition for either core or supporting R&D activities

R&D Incentives Summary[5]

Country	Names of Incentives	Incentive types	Description of Benefits	Applicability	Carryforward/ Carryback option	Pre-approval required	Annual compliance required	Certification required
Australia	R&D Tax incentive	Tax credits	A 43.5% refundable tax offset is available for eligible R&D entities with aggregated turnover of less than AUD20 million per year. A 38.5% non-refundable tax offset is available for all other eligible R&D entities. Foreign-owned R&D can qualify for the 38.5% to 43% tax offset depending on its aggregated turnover. Annual cap of R&D expenditure claimed is AUD100 million per R&D entity.	Current Investments	Unused tax credits may be carried forward indefinitely. R&D entities eligible for the 43.5% refundable tax offset that are in sufficient tax losses can cash out their refundable tax offset.	Eligibility of work performed outside country requires pre-approval through Overseas Funding Application. However, this is only available to Australian-owned R&D activities. Applications can be made for pre-approval of R&D activities for the current and future two financial years.	Yes	No

[5] EY 2019 Worldwide R&D incentives guide

New Zealand	R&D tax incentive	Tax credit	Eligible businesses with R&D expenditure can claim a tax credit of 15%. R&D funding is capped at NZD120 million of R&D expenditure per year. A mechanism to go beyond the cap is available.	Current Investments	Unused credits may be carried forward indefinitely, subject to satisfaction of the shareholding test.	No	Yes	No
	R&D loss tax offset	Refundable tax credit	Eligible loss-making companies with high R&D intensity can refund up to 28% of R&D-related tax losses.	Current Investments	N/A	No	Yes	No
	Callaghan Innovation Grants (to be phased out by 31 March 2021)	Cash grant	Student Grant: funds university students to gain experience in a business R&D setting Project Grant: 40% of eligible R&D project	Future Investments	N/A	Yes	Yes	Yes
Singapore	Enhanced R&D deduction	Super deduction	Provides for 250% enhanced deduction on qualifying R&D expenditure in Singapore for YAs 2009 to 2025. R&D tax deduction is further enhanced from 150% to 400% for first S$400,000 of eligible R&D expenditure for YAs 2011 to 2018. Additionally, for YAs 2015 to 2018, SMEs will enjoy 400%	Current Investments	Unused losses may be carried forward indefinitely, subject to satisfaction of the	No	Yes	No

			enhanced tax deduction on an additional S$200,000 of qualifying expenditure. Eligible businesses also have the option to convert up to S$100,000 of qualifying expenditures into cash at a conversion rate of 40% (60% for qualifying expenditure incurred before 1 August 2016) up until YA 2018. For YAs 2019 to 2025, the enhanced deduction will be a flat 250% on qualifying R&D expenditures incurred on qualifying R&D projects in Singapore.					
	Research Incentive Scheme for Companies (RISC)/Innovation Development Scheme (IDS)/Financial Services Technology Innovation (FSTI)	Cash grants	Support is typically 30% or 50% of total qualifying cost, such as manpower related costs, equipment and materials, professional services and IP rights. Grants have been provided selectively to large projects in certain strategic technology areas identified by the Singapore Government.	Future Investments	N/A	Yes	Yes	Yes

			However, projects awarded the cash grant are not announced nor made public.					
	"Double tax deduction for R&D expenses"	Super deduction	200% tax deduction on R&D expenditure incurred on approved projects. Under the current law, no R&D projects may be approved for this incentive after 31 March 2020.	Future Investments	Unused losses may be carried forward indefinitely, subject to satisfaction of the shareholding test.	Yes	Yes	Yes