

# Submission on proposed R&D Tax Incentive law changes

—————  
*5 November 2018*



5 November 2018

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

Email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Senate Standing Committee on Economics

## Submission on proposed R&D Tax Incentive law changes

Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ) appreciates the opportunity to provide our submission to the Senate Economics Committee's [Inquiry on Treasury Laws Amendment \(Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures\) Bill 2018](#) (the Bill).

We welcome the decision of the Senate to conduct an inquiry into the impacts of the proposed R&D law changes contained in Schedules 1 to 3 of the Bill. We believe it is vigilant of the Senate and necessary to have this important review process to ensure the viability of the R&D Tax Incentive in the long-term interests of the Australian economy. In our view, the covert way in which these amendments were included in this omnibus Bill and introduced into Parliament speaks to the need for extra scrutiny to be applied to these R&D measures to ensure they are fit for purpose to support small and large business innovation and entrepreneurship in the Australian economy over the coming critical decades. We note that the New Zealand (NZ) Government, by contrast, adopted what we consider to be the [appropriate approach to their NZ R&D tax credit measures](#) by including them in a standalone bill on the basis that "it would signal the prominence of the policy and allow greater opportunity and time for debate and scrutiny through the House of Representatives and the Select Committee."

As a public interest organisation, Chartered Accountants ANZ is always attuned to ensuring that short-term political priorities, trade-offs, or cost-saving exercises of governments of the day do not compromise sound, proven, broad-based Australian tax policy, such as the R&D Tax Incentive, that has been and will continue to be an essential central pillar of Australia's global economic competitiveness and prosperity.

## Introductory comments

This submission is intended to provide supplementary points to add to, and to reinforce, points made in our earlier submission to the Australian Treasury on the [Exposure Draft R&D law and explanatory materials](#) (the Draft law), dated 26 July 2018. We have appended a copy of that submission to this submission, at Appendix B (as unusually, submissions to that consultation have not been made public). Our primary concern with the Draft law was the R&D intensity measure - both the policy and tax law design aspects. Each of the points made in our July 2018 submission continues to apply as no material changes were made to those aspects of the law as introduced to Parliament. We recommend the Committee request copies of the submissions as they will be relevant and will include numerous submissions by companies – submissions that may not be made to this Inquiry due the misleading title of the omnibus Bill.

Given the limited time for submissions and the importance of the Senate clearly understanding the extent of the impacts involved in the proposed R&D law changes, for brevity and clarity, this submission seeks to highlight in a succinct manner for Committee members the main impacts that would result from the proposed R&D law changes in the Bill.

We do this by way of:

1. A brief Executive summary
2. A List of key impacts of the proposed R&D law changes, with Examples; and
3. A Table, comparing the R&D tax rates, benefits, entitlements under:
  - a. The current R&D Tax Incentive
  - b. The proposed R&D Tax Incentive; and
  - c. The proposed New Zealand R&D Tax Credit.

It is important for the Senate Committee to appreciate that the R&D law changes in the Bill are intended to implement the recommendations of the R&D Tax Incentive Review Panel (Review Panel) which was asked to “identify opportunities to improve the effectiveness and integrity of the R&D Tax Incentive, including by sharpening its focus on *encouraging additional R&D spending* [emphasis added].” Achieving additional R&D spending by private firms is the end-game sought by these reforms, and as such, all proposed R&D law changes in Schedules 1 to 3 of the Bill should be tested against that policy objective.

### Executive summary

- This Bill should not be passed in its current form. If possible, the Bill should be split into R&D and non-R&D components. The R&D measures in Schedule 1 – Better Targeting the R&D incentive - should be excised from the R&D Bill and not legislated. Chartered Accountants ANZ considers that the proposed R&D changes in Schedule 1 of the Bill would achieve the exact opposite of the core objective of ‘increasing additionality’ for the majority of Australian businesses undertaking R&D. Our nation can ill afford such an unintended policy outcome at a time when it is more important than ever for Australia’s R&D tax incentive to encourage businesses to innovate in Australia, to attract increasingly mobile capital, and to generate business opportunities, employment, intellectual property, technology, know-how, efficiencies, productivity and income for the benefit of the Australian economy.
- Chartered Accountants ANZ calls on the Senate Committee to recommend a complete re-think of the proposed R&D changes in Schedule 1, as they would render Australia’s central innovation policy lever entirely uncompetitive internationally, particularly when compared with the newly proposed New Zealand R&D Tax Credit. We believe that the Bill’s two principal changes to “better target” the R&D Tax Incentive would do serious harm to the success of both the program and the businesses that are dependent upon its support for their R&D investment, namely:

(i) the **‘R&D Premium’** applicable to large companies (\$20 million turnover or more<sup>1</sup>) under the non-refundable R&D tax offset - as the ‘R&D intensity’ thresholds would create uncertainty, complexity and unrealistic goals, and amount to a compliance-onerous, non-incentive for the majority of large companies; and

(ii) **pegging the R&D tax incentive rate to the corporate tax rate** - as this would significantly reduce the R&D tax benefit available to small companies (less than \$20 million turnover) under the refundable R&D tax offset that are in tax losses, due to the recently enacted corporate tax rate cuts for these companies (small base rate entities). These companies are most in need of R&D investment support, being start-ups that are in an R&D phase in their business cycle.

---

<sup>1</sup> The R&D definition of small and large business is now outdated as the turnover threshold for [“base rate entities” from 2018/19 is now at \\$50 million](#) for corporate tax purposes, while for R&D it is at \$20 million. This lack of alignment causes a mismatch, complexity and unintended interactions with the corporate tax rates. See Appendix A.

## Key impacts of proposed R&D changes

### 1. Creating a non-incentive – uncompetitive benefit, unrealistic goals, high compliance cost

The proposed R&D Premium's entry level R&D benefit rate of 4c/\$ is an exercise in futility and a patent disregard of the reality of the globalised world in which we live and conduct business, in our view. Chartered Accountants ANZ understands that this rate, if enacted, would be amongst the lowest R&D offerings by any country in the world. In OECD countries, the mean R&D tax subsidy rate for large companies is estimated at 10c-13c/\$.<sup>2</sup>

For this reason, it is clear that the first two proposed R&D benefit rates of 4c/\$ and 6.5c/\$, which are a fraction of the OECD average, are not internationally competitive in themselves. Indeed a 4c/\$ R&D benefit is below the viable rate of incentive, which is widely regarded as 5c/\$ minimum having regard to standard compliance and administration costs.

However, when we add on top of that:

- (i) the R&D Premium intensity calculation compliance obligations to access those rates; and
- (ii) the higher R&D benefit marginal rates of 6.5c/\$, 9c/\$ and 12.5c/\$ respectively apply only to incremental expenditure; and
- (iii) the R&D intensity rates of 2<5%, 5<10%, and 10>% respectively are inordinately ambitious or impossible to achieve in order to access the higher R&D benefits.

the R&D incentive becomes a clear non-incentive, or arguably a disincentive from participating in the R&D program in Australia for those companies who would only qualify for the two lower end benefits. This is because the net R&D benefit is considerably lower after compliance costs. The reward is not worth the cost and the risk to obtain it.

We understand from member analysis and feedback that most companies are likely to have an R&D intensity under the proposed rules in the range of 0%-1%. It is therefore extremely difficult to meet or exceed the 2% threshold in order to get into the second incremental rate of 6.5c/\$, which is still likely to be unviable given the onerous compliance costs involved in complying with the R&D intensity calculation.

The 2017 OECD report '*Main Science and Technology Indicators*' shows that R&D expenditure to GDP for the European Union (EU) area remains at 1.94%,<sup>3</sup> and has not been able to be lifted despite R&D intensity policy. Indeed, the studies on R&D intensity sound a warning bell for law-makers which cautions against the adoption of R&D intensity as the measure on which to reward and encourage private R&D investment with public R&D support,<sup>4</sup> particularly if the cause of R&D intensity deficiency in an economy is structural.<sup>5</sup> We believe this is the case for the Australian economy, which is closer to the EU in composition, than it is to that of the US or Japan.

By comparison, [New Zealand has introduced a Bill](#) into Parliament to provide a simple, generous R&D Tax Credit from 1 April 2019 which will offer a 15c/\$ R&D benefit on every dollar of R&D expenditure (volume-

---

<sup>2</sup> OECD (2017), OECD [Review of National R&D Tax Incentives and Estimates of R&D Subsidy Rates](#). See p.26 and Table 13.

<sup>3</sup> OECD (2018), OECD [Release of Main Science and Technology Indicators - Latest estimates of R&D investment in OECD and major economies](#), MSTI 2017/2 (March 2018).

<sup>4</sup> Jared Holt, Ahmed Skali and Russell Thomson (2016), [The Additivity of R&D Tax Policy in Australia](#), Swinburne University of Technology, Centre for Transformative Innovation, *Working Paper 3/16*.

<sup>5</sup> Pietro Moncada-Paternò-Castello (2016), [A review of corporate R&D intensity decomposition](#), Solvay Brussels School of Economics and Management, iCite Working Paper 2016 – 018, at p.22-24.

based), not merely on a small, incremental amount of the total R&D expenditure. New Zealand (NZ) is not proposing any R&D intensity requirement.

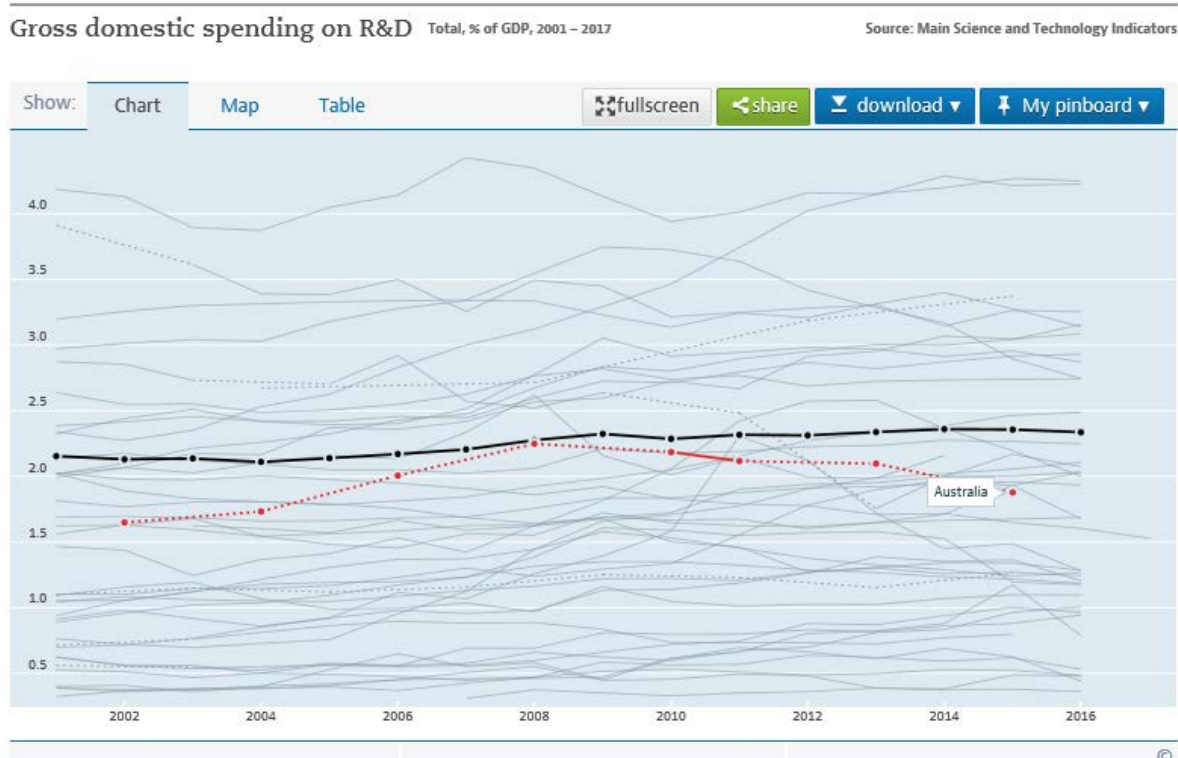
Chartered Accountants ANZ believes that the much superior NZ R&D tax credit will result in the outcome that where any new R&D activities can be undertaken in NZ, they will be, to the detriment of Australia's economy. All else being the same, Australia's R&D program will not compete with NZ's R&D investment support in attracting R&D projects. We note that companies such as MYOB Group Ltd have signalled the real prospect of moving their R&D to NZ in their submission to the Senate Committee on the Bill.

For a comparison of the respective R&D tax rates, benefits, and entitlements on offer between Australia and New Zealand, under the current and proposed Australian R&D tax incentives, and the proposed NZ R&D tax credit, see the Table at Appendix A.

The New Zealand Government has committed to raising [NZ's total R&D expenditure to 2% of GDP over 10 years](#) through a sustained increase in both its public and private R&D investment, from 1.23% of GDP in 2016. New Zealand's ambitious goals, according to their Research, Science and Innovation Minister Megan Woods include its "commitment to lift the wellbeing of [NZ] society, undertake a just transition to a low carbon economy, and help Kiwi firms move further up the value chain and deliver higher wages by increasing investment in R&D."

By contrast, it has been [reported](#) that the Australian Government's public investment in R&D as a proportion of GDP has been on a slide since 2011-12 at 0.67%, to 0.57% in 2017-18, and down to a forecast 0.51% in 2018-19, the opposite of what is required to boost Australia's innovation.

This [OECD chart](#) shows the worrying trend – Australia is headed in the wrong direction, and we have now fallen well below the OECD average of 2.3% of GDP (2015), while in 2008 we were right on the OECD average of R&D spend to GDP. We consider that this undesirable trend is due to the constant reviews and the uncertainty that has plagued the R&D Tax Incentive policy since that time, starting with the Cutler Review in 2008. De-stabilising and weakening the R&D Tax Incentive policy has only worked to materially diminish Australia's R&D spend to GDP ratio. The uncertainty must stop.



The damaging effect of uncertainty on R&D investment is now discussed further in the context of the measures proposed in the Bill.

## 2. Creating uncertainty and instability

Uncertainty is the enemy of investment. The key role of the R&D Tax Incentive is to provide certainty of R&D investment support, and therefore help business plan and commit to making long-term investment decisions, which translates into innovation being generated over the longer term. The certainty, stability and sustainability of the R&D tax incentive is vital for the future prosperity of Australia. 'Investment-grade' certainty is required if we are to ensure continued long-term R&D investment by private firms in Australia.

The proposed 'R&D Premium' creates uncertainty as to whether large claimant companies will be limited to the entry level benefit of 4c/\$ which is below the marginal value of making the claim after compliance costs and risks of participating in the program, or whether they will be able to access a more viable (but by no means a sufficient nor attractive) R&D tax benefit of 6.5c/\$ or higher. This uncertainty is due to the 'R&D intensity' calculation which cannot be known until after year end, which removes the ability to plan and budget for R&D investment in advance. High-cost sectors, such as Australia's important agricultural and manufacturing industries, will be disproportionately affected by the calculation of R&D intensity, as it is a ratio of R&D expenditure to total company expenditure. In its current form, therefore, the Bill would damage the broad-based incentive that is the strength of the current R&D tax system - it discriminates against different industry types (based on their general level of R&D intensity). Another unintended consequence of this is that importers will be advantaged over Australian manufacturers.

Leading examples of R&D claimant companies that have indicated they will have their R&D tax benefit severely eroded by the R&D intensity threshold include Dulux Group as reported in the press, and CSL as indicated in their submission to the Senate Committee on the Bill. Submissions made to the Exposure Draft consultation by other companies are all likely to convey the same message.

Similarly, the proposal to peg the R&D Tax Incentive rate to the corporate tax rate introduces uncertainty for small company claimants under the refundable offset where they are in tax losses. This risks introducing long-term instability into the R&D tax incentive for start-ups that are not yet profitable and paying tax, because their R&D tax benefit will progressively reduce when the enacted company tax rate cuts take effect, and it will continue to be diminished should future governments provide further rate cuts. This is because their R&D tax offset is the corporate tax rate + 13.5 percentage points. Currently, the refundable R&D tax benefit for start-ups in tax losses is 43.5c/\$, but under the proposed changes, by 2021/22 it would be cut a further 5 percentage points to 38.5c/\$.

Leading examples of small and start-up companies that have expressed significant concerns about being adversely impacted by the uncertainty, instability and reduced support under the proposed R&D changes include Uniseed and StartupAUS as reported in the [press](#).

## 3. Causing 'additionality' to fall – Business Expenditure on R&D (BERD)

The cumulative effect of uncertainty, an uncompetitive R&D tax benefit, heightened complexity and risks in calculations, and much more onerous compliance costs, is most likely to cause Business R&D Expenditure (BERD) to fall in Australia, not to increase – the exact opposite of the intended effect. We anticipate that the R&D intensity threshold will mean that many large R&D claimants will disengage with the R&D program and accordingly, BERD will plummet under the new R&D measures.

Similarly, progressively reducing the R&D tax benefit received by start-ups in tax losses will also mean that their BERD will reduce correspondingly or it will move offshore. Without the R&D tax incentive funds, they will simply not have the same liquidity to recommit into further R&D activities. This concern has been expressed by 2cloudnine Pty Ltd and other companies in their submissions to the Senate on the Bill.

Achieving ‘additionality’ in the context of R&D refers to the policy objective of inducing additional private R&D expenditure by contributing public investment in R&D. The OECD research reveals that generally “across countries, R&D intensity in the business sector has a positive correlation (0.3) with the level of government support to business R&D”.<sup>6</sup> That is, generous public R&D investment is needed to induce productive flows of private R&D investment.

Based on modelling done by specialist R&D practitioners, we understand that R&D intensity of over 13% would be required under the R&D Premium for an entity to be better off than under the existing R&D Tax Incentive’s 8.5c/\$ volume-based offering. We are concerned that these numbers indicate a substantial reduction in public R&D support being provided under the proposed non-refundable tax offset, not a considered, measured and appropriate attempt to “better target” public R&D support. Many other simpler, more certain R&D policy design options are open to the Government than the poor policy proposed.

The [Government’s own budget figures](#) reveal that a dramatic fall in public R&D investment is expected from the policy, particularly for large companies under the non-refundable tax offset:

	2017/18 (\$ millions)	2018/19 (\$ millions)	2019/20 (\$ millions)
<b>Refundable tax offset</b>	710,000	420,000	330,000
<b>Non-refundable tax offset</b>	2,122,176	1,913,000	2,001,000

We believe that this is unnecessarily discriminatory, and its adverse impacts could be even more far-reaching. For large claimants, the excessive compliance/assurance costs for inadequate reward are likely to be of such a magnitude that they will compromise participation in the program all together, and in turn the ‘additionality’ currently being achieved by the existing incentive, the success of which has been confirmed in the academic studies.

In a February 2016, Swinburne University study specifically on ‘[The Additionality of R&D Tax Policy in Australia](#)’,<sup>7</sup> the Australian R&D Tax Incentive policy was found to deliver additionality in the range of \$0.80c - \$1.90c, which “compares favourably with estimates from other countries”. (at p.3)

Firms participating in the R&D program were found to invest around 40% more in R&D than similar firms not registered to receive the R&D incentive. This translates to additionality of approximately \$0.8 - \$1.7 for every dollar of tax revenue foregone. Should a majority of firms decide to disengage with the R&D program, this substantial additionality will be lost as we expect that their BERD will drop off.

Swinburne also found that the introduction of the current R&D Tax Incentive lead to a 14% increase in R&D spending by the sample firms claiming in both 2011 and 2012, compared with the former R&D tax concession. This translates to additionality of \$1.9 per dollar of tax revenue foregone. (at p.6)

On this basis, the R&D Tax Incentive, which was specifically retargeted in 2011, is achieving substantial reliable additionality and members of Parliament should take extreme care not to damage the success and standing of Australia’s R&D Tax Incentive.

<sup>6</sup> OECD (2017), OECD Science, [Technology and Industry Scoreboard 2017: The digital transformation](#), OECD Publishing, Paris.

<sup>7</sup> Jared Holt, Ahmed Skali and Russell Thomson (2016), [The Additionality of R&D Tax Policy in Australia](#), Swinburne University of Technology, Centre for Transformative Innovation, *Working Paper 3/16*.

In addition, Swinburne notes that the study does not take into account potential additional tax revenue from firms that have higher future taxable income due to the increased R&D investment as a result of the incentive, so this would be an additional positive outcome to factor in (at p.9). We expect that it also does not take account of amounts recouped via personal income tax paid by personnel. If R&D is moved offshore, not only does Australia lose the direct tax revenue, but we lose other tax revenue, such as GST, personal tax, payroll tax, superannuation, etc.

Finally, Swinburne's report notes that:

*[I]t is vitally important to bear in mind that inducing additional R&D is not an end in itself. The rationale for subsidising R&D is to induce positive spillover benefits to other firms and consumers.*  
(at p.9)

In this regard, Swinburne states that the value of these spillover benefits (in terms of material well-being) to other firms and individuals is considerably greater than one dollar for each dollar of R&D investment, and this is backed by extensive empirical evidence and theory. Swinburne also notes that these "welfare-enhancing spillover benefits" would otherwise be foregone. (at p.9) As such, they provide a broader argument in support of the efficacy of government allocation of R&D spending to private firms.

The additionality and spillover benefits generated by the R&D Tax Incentive have also been affirmed by the findings of the Centre for International Economics (CIE). As reported in the Review Panel's Issues Paper, CIE found additionality of up to \$1 additional R&D expenditure for every \$1 tax foregone for large companies, and for SMEs up to \$1.50 additional R&D expenditure for every tax dollar foregone.

## Modelling – economic impacts of proposed R&D changes

Without reliable modelling being released by Treasury, we do not see how the Government has been able to forecast and assure itself of the likely economic impacts of the R&D Premium (R&D intensity thresholds). Until this has been done and made publicly available, or at least to the Senate Committee, we believe that the Government and Parliament would be taking an unacceptable risk in making this change to the non-refundable offset, as the new R&D Premium rules represent the most far reaching and potentially damaging policy change to the R&D Tax incentive in the long history of the R&D program.

Based on the literature cited in this submission, Chartered Accountants ANZ considers that the current R&D Tax Incentive is providing very good value to the Government in terms of leveraging 'additional' private R&D spending that would not otherwise occur for the benefit of the Australian economy by financing innovation, and in generating broader material spillover benefits enjoyed by other firms and individuals in Australia.

## Recommendations

Chartered Accountants ANZ recommends:

1. The Senate should not pass the Bill in its current form. If possible, the Bill should be split into R&D and non-R&D components. A complete re-think of the two principal R&D law changes in Schedule 1 is required, being the R&D Premium (low tax benefit and high R&D intensity thresholds); and the re-coupling of the R&D tax offset rate with company tax rate in light of the legislated corporate tax rate cuts. Schedule 1 should be excised from the R&D Bill and not legislated. In particular, the proposed R&D Premium (R&D intensity measure) for the non-refundable offset is likely to severely undermine the R&D program objectives of achieving spillover benefits for the Australian economy.

2. If the Senate Committee decides that the Bill should be passed but amended to make it more workable, then our recommendations at 2.5 in our July 2018 submission (Appendix B) should be considered and adopted. This is not our preferred outcome.

Parliament must make a careful and prudent innovation policy choice decisions here in relation to the R&D Schedules of the Bill to ensure that the R&D additionality currently being induced from private firms is not compromised, but rather can be maintained or improved.

## Conclusion

Chartered Accountants ANZ considers that the proposed R&D Premium intensity mechanism, if implemented as drafted, would likely have a profound and adverse impact on participation in the R&D Tax Incentive program, which would lead to a drop in BERD, rather than encouraging additional private R&D expenditure. The proposed re-coupling the R&D tax benefit and the corporate tax rate will also have a significant detrimental impact upon start-ups BERD due to the progressively reduced R&D support that will result as company tax rates are cut in the future. Decreasing Australia's BERD at a time when the Government's objective is to increase Australia's additional private investment in R&D could create a significant risk for the Government's Innovation agenda and could impact our nation's immediate ability to innovate and compete in trade, technology development and talent attraction in a global market.

We believe that there are much better policy designs and levers that could be developed to increase R&D additionality, such as a simpler, more certain and attractive base rate of benefit, closer to the NZ R&D Tax Credit model, and by targeting indicators of high value R&D to the Australian economy as the basis for reward, rather than R&D intensity.

Accordingly, the Bill should not be passed in its current form. A complete re-think on reform of Australia's vital R&D Tax Incentive policy is required. Transparent modelling of the economic impacts should form an integral part of the redesign and policy decision-making process.

We trust that the comments in this submission are of assistance to the Senate Committee. We would welcome the opportunity to discuss our submission with you in further detail should this assist.

In the meantime, if you have any questions about any aspect of our submission, please contact [REDACTED]

Yours sincerely,

[REDACTED]

**Michael Croker**  
**Tax Australia Leader**  
**Chartered Accountants Australia and New Zealand**

## Appendix A

### Comparison of R&D tax rates / benefits / entitlements (2018-19 and future rates)

	<b>Current R&amp;D Tax Incentive</b>		<b>Proposed changes to R&amp;D Tax Incentive in the Bill (from 1 July 2018 onwards)</b>		<b>New Zealand R&amp;D Tax Credit Bill (from 1 April 2019 onwards)</b>	
<b>Impact on R&amp;D tax rates / benefits / entitlements</b>	<b>Large companies \$20M or &gt; t/o</b>	<b>Start-ups / SMEs &lt;\$20M t/o</b>	<b>Large companies \$20M or &gt; t/o</b>	<b>Start-ups / SMEs &lt;\$20M t/o</b>	<b>Large companies \$20M or &gt; t/o</b>	<b>Start-ups / SMEs &lt;\$20M t/o</b>
<b>R&amp;D Tax credit rate</b>	Notional tax offset of 38.5%	Notional tax offset of 43.5%	<p>'R&amp;D Premium' Notional tax offset based on R&amp;D intensity:</p> <p>&lt;2%: 34% &gt;2&lt;5%: 36.5% &gt;5%&lt;10%: 39% &gt;10%: 42.5%</p> <p>Prerequisite to any entitlement is determining 'R&amp;D intensity'</p> <p>Base rate entities, R&amp;D rate will reduce by 5 percentage points by</p>	<p>Notional tax offset of -</p> <p>Base rate entities: 41% (27.5% + 13.5%)</p> <p>By 2021/22, Base rate entities: 38.5% (25% + 13.5%)</p>	Tax credit of 15%	Tax credit of 15%

			2021/22 due to corporate tax rate cuts.			
<b>R&amp;D Tax benefit amount</b>	<p>8.5c/\$ for all large companies (38.5c/\$ - 30c/\$)</p> <p>Base rate entities: 11c/\$ (38.5c/\$ - 27.5c/\$)</p> <p>By 2021/22, Base rate entities: 13.5c/\$ (38.5c/\$ - 25c/\$)</p>	<p>16c/\$ (43.5c/\$ - 27.5c/\$)</p> <p>If in losses, the refundable tax offset means the tax benefit is 43.5c/\$</p> <p>By 2021/22, Base rate entities: 17.5c/\$ (43.5% - 25%)</p>	<p>4c/\$ (higher benefits are only available if R&amp;D intensity is &gt;2% which is a high threshold for most Australian companies, such as manufacturing and agriculture sectors)</p> <p>R&amp;D tax benefit will remain the same regardless of changes in the corporate tax rate</p>	<p>13.5c/\$</p> <p>If in losses, under the refundable tax offset, the benefit will be 41c/\$</p> <p>By 2021/22, if in losses, under the refundable tax offset the benefit will be reduced to 38.5c/\$ (25c/\$ + 13.5c/\$)</p>	15c/\$	15c/\$
<b>Refundable and cap</b>	Non-refundable, but carried forward as tax offset to future years.	Fully refundable	Non-refundable, but carried forward as tax offset to future income years	<p>Refundable, but capped at \$4 million annual refund claim.</p> <p>Clinical trials will not count towards cap.</p> <p>Balance carried forward as non-refundable tax offset to future income years.</p>	Refundable, but \$255,000 cap per annum (equivalent of \$1.7 million expenditure). Balance carried forward as non-refundable credit to future income years.	Refundable, but \$255,000 cap per annum (equivalent of \$1.7 million expenditure). Balance carried forward as non-refundable credit to future income years.
<b>Total claim cap</b>	\$100 million annual expenditure cap.	\$100 million annual expenditure cap.	\$150 million annual expenditure cap.	\$150 million annual expenditure cap.	\$120 million annual expenditure cap. With ability to apply for exemption if claimant can demonstrate significant benefit to New Zealand.	\$120 million annual expenditure cap. With ability to apply for exemption if claimant can demonstrate significant benefit to New Zealand.

## Appendix B

Please see Chartered Accountants ANZ's submission on the Exposure Draft R&D law and explanatory materials, dated 26 July 2018, [here](#).