Submission by

NZTech

to the

FINANCE AND EXPENDITURE SELECT COMMITTEE

on the

RESEARCH AND DEVELOPMENT TAX INCENTIVE RE: THE TAXATION (KIWISAVER, STUDENT LOANS, AND REMEDIAL MATTERS) BILL

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NZTECH SUBMISSION ON THE RESEARCH AND DEVELOPMENT TAX INCENTIVE - THE TAXATION (KIWISAVER, STUDENT LOANS, AND REMEDIAL MATTERS) BILL – 3 SEPTEMBER 2019

INTRODUCTION

The New Zealand Technology Industry Association (NZTech) welcomes the opportunity to make a submission to the Finance and Expenditure Select Committee on the Taxation (Kiwisaver, Student Loans, and Remedial Matters) Bill.

BACKGROUND

NZTech is the voice of the organisations that are redefining the world we live in.

A not-for-profit, membership funded NGO, NZTech represents more than 1000 unique organisations across the New Zealand technology landscape which collectively employ more than 10 percent of the New Zealand workforce.

Our membership ranges from start-ups and local tech firms to multinationals, ICT firms and high-tech manufacturers. As well as leading national corporations, universities, banks and government agencies that work closely with the tech sector to generate economic growth.

Our goal is to stimulate an environment where technology provides important productivity and economic benefits for New Zealand.

COMMENT

Our submission is in relation to ss105 - 107 of the Bill. We do not propose any further comment on the other parts of the Bill as far as they do not relate to the Research &Development (R&D) tax incentive.

NZTech is supportive of the R&D incentive. It is our underlying belief that this initiative will introduce further investment into the New Zealand technology sector. The R&D incentive aligns New Zealand with other leading technology nations such as Israel and the Netherlands.

Statistics NZ data shows computer services and scientific and tech services make up 35 percent of all R&D investment. Computer services companies alone invested $586 million in R&D in 2018, an increase of $150 million. The tech sector is made up of more than 20,000 firms, most of them small businesses, yet they contribute around $16 billion to GDP and close to $7 billion in exports, making them the country’s third largest export sector.

The growth of the tech sector is contributing to regional growth and employment, with well over 100,000 Kiwis now employed by tech firms. However, the biggest impact from a growing tech sector is the positive impact of its growth on the economy as a whole.

We are supportive of the further changes proposed in this Bill and believe that it will provide more firms with the opportunity to invest further in R&D. However, there remain a number of complex issues that will prevent further investment:

Cessation of the current growth grant scheme

We remain concerned that the scheduled cessation of the current growth grant scheme may disadvantage a number of New Zealand firms, especially start-ups and SME's. We look forward to further consultation with the Government on how this is due to occur.

Compliance burden for firms in benefitting from the incentive, including education for firms on how to apply

There is concern that the application process may be onerous on business, as such we encourage the Government to undertake a broad education campaign to ensure businesses are aware of the range of options available beyond tax credits. To this end, we hope the Government will continue to engage with the industry to ensure the objectives of the incentive are achieved.

The definition of software development

As software development is crucial for New Zealand's economic growth, we remain concerned that the definition of software may exclude a range of businesses undertaking software R&D activities.

Whether profitable or pre-profit, business will find it difficult to qualify for an R&D Tax Credit as eligibility has been raised when compared to Callaghan Growth Grants.

By deliberately removing Callaghan's innovation/novelty test, virtually all software businesses that received Callaghan Growth Grants funding over the last five years would be ineligible under the new regime.