CARTER & ASSOCIATES
CHARTERED ACCOUNTANTS LTD

NEWSLETTER

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Payday filing and the new R&D tax credit regime

PAYDAY FILING - WHAT DOES IT MEAN FOR YOUR BUSINESS?

Payday filing is a change to the current practice of filing your Employer schedule (IR348) each month. Instead, employment income information will be filed electronically with Inland Revenue each payday.

While payday filing has been voluntary since April 2018, it is mandatory for all employers from 1 April 2019.

Employers with annual PAYE amounts of less than $50,000 can however continue to submit manual returns within a certain timeframe of payday, which will typically be at an earlier date than previously required.

To ensure your business will be ready for these changes, you should:

- Start reviewing your current PAYE reporting processes and considering how these need to change
- Consider how you will implement electronic filing (eg whether to transition to using an online payroll provider or use myIR)
- Contact your payroll software provider to make sure that the software used will be updated in time
- Consider whether you wish to become an early adopter of payday filing

More information about payday filing is available here.

THE NEW RESEARCH AND DEVELOPMENT TAX CREDIT

To encourage more business expenditure on R&D, last month the Government introduced draft legislation proposing a new tax credit for eligible R&D expenditure.

The credit will apply from the 2019–20 income year and will be administered by Inland Revenue with support from Callaghan Innovation.

While businesses will not be able to receive the tax credit in the same year they receive a Callaghan Innovation Growth Grant, businesses can still receive the current R&D tax loss cash-out and the new R&D tax credit in the same year.

The new tax credit will operate as a tax credit against a businesses annual income tax liability and where the business is in a loss position or has excess tax credits, the tax credits will be refunded (up to a cap of $225,000 in the first year) with any excess tax credits being carried forward to the next income year (subject to minimum shareholder continuity being maintained).

In the first year the credit will be part of a business's income tax return process, and from the second year some businesses will need to seek pre-approval from Inland Revenue and then submit expenditure information with their income tax return.

Key features

- a credit of 15% of eligible expenditure
- a $120m cap on eligible expenditure, unless a person has obtained the Commissioner's approval to exceed the cap
- a minimum R&D spend threshold of $50,000 per year; and
- a limited form of refund in its first year which will be replaced by a more comprehensive approach in the scheme's second year.

The following tests must be satisfied before a person can receive an R&D tax credit:

1. the person who is claiming the credit must be an eligible person;
2. the activity must be an eligible R&D activity; and
3. the expenditure must be eligible R&D expenditure.

1. An **eligible person** is a person who:
   - performs a core R&D activity in New Zealand, or a contractor who performs a core activity on their behalf;
   - carries on a business through a fixed establishment in New Zealand; and
   - has R&D controlling rights over their R&D activities; and
   - satisfies one of the following requirements:
     - the person owns the results of their R&D activities;
     - the person is able to use the results of their R&D activities for no further consideration; or
     - a company in the person's corporate group owns the results of the person's R&D activities, and the company is resident in a jurisdiction with which New Zealand has a double tax agreement

2. **Eligible R&D activity** is a core activity that:
   - is conducted using a systematic approach;
   - has the purpose of creating something new; and
   - has the purpose of resolving scientific or technological uncertainty.

3. **Eligible R&D expenditure** is expenditure incurred on an R&D activity and includes employee salaries, consumables used in an R&D process, and depreciation for assets used in R&D.

Primarily, R&D tax credits are only available for expenditure on R&D that occurs in New Zealand, however there is the ability for up to ten percent of an R&D claim to be for eligible expenditure incurred on R&D activities performed outside New Zealand.

More detail on eligibility requirements and how the credit will be administered is available in the commentary on the bill: http://taxpolicy.ird.govt.nz/sites/default/files/2018-commentary-rdtc-bill.pdf

If you have any questions regarding this Newsletter, please don't hesitate to contact the office - 09 5799157

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