

Business Tax Review Submission

September 2006: From the Policy Unit of the Royal Society of New Zealand in response to government review of business taxation

We are glad to see the government considering tax measures to support research and development. New Zealand's business expenditure on R&D is very low by international standards, as is our support for business expenditure on R&D. It is the Society's position that our performance in this area must be improved if we are to have a hope of transforming our economy.

We wish to bring to your attention the Society's paper "Potential Implications of Providing Tax Incentives for Research and Development in NZ". This paper was commissioned by the Society and endorsed by the Society Council. The paper includes a review of tax incentives in OECD countries, highlighting relevant features in the systems of Australia, Canada, Japan, the Netherlands, the United Kingdom and the United States. It also includes a review of research into the effectiveness of tax incentives and recommendations regarding the design of these incentives.

The Society's position is that targeted tax credits should be introduced to support innovative activity in firms and stimulate business R&D. While many tax changes would favour business, tax credits for R&D would specifically benefit those firms carrying out innovative research in New Zealand, whether domestically-owned or not. They would assist firms with the significant up-front costs and uncertain payback of research activities. The success of these credits will depend upon the specific design of the tax incentives and this must be approached carefully as it is difficult to predict the impact of alternative designs of these incentives.