

Research and development supplementary return guide

This factsheet explains what the Research and development (R&D) supplementary return is, who needs to complete it and how to complete it.

What is the R&D supplementary return?

The R&D supplementary return is how you supply us the details of your R&D project so you can claim R&D tax credits for your eligible expenditure. The information you'll enter on the return includes:

- your R&D activities (and anyone who assisted you with them, such as contractors)
- your R&D expenditure breakdown
- how you would like to receive your tax credit.

Who has to file?

All eligible entities must file an R&D supplementary return every income year they want to claim R&D tax credits.

Return due date

Your supplementary return is due 30 days after the due date for your income tax return. If you have a standard balance date of 31 March, you have until 7 July to file your income tax return and 6 August to file the supplementary return. If you have a balance date other than 31 March, this date may be different.

If you have a tax agent, you may have an extension of time to file your income tax return. The due date for your supplementary return will be 30 days after this extended due date. If this applies, contact your agent.

Please note that your supplementary return is due 30 days after the income tax return due date. Filing your income tax return early will not affect the due date for your supplementary return. Likewise, you can file your income tax return up to a year late and still claim the R&D tax credit, but your supplementary return must still be filed within 30 days of the due date of your tax return. Late submissions of your supplementary return will not be accepted.

Important: To claim the tax credit, you need to file your income tax return.

Filing the supplementary return alone is not enough.

Filing for R&D performed as part of a partnership or joint venture

When claiming R&D performed as part of a partnership, joint venture or look-through company, each party in these entities must individually submit a supplementary return. When you file your supplementary return, you'll be asked who the other parties in the R&D project were, and what their share of the eligible expenditure was. For the 2021 tax year and future tax years this information will be collected on the General approval form. If you are filing as part of a look-through company you must tick the **partnership** button and add in the details of the other look-through company shareholders.

To make sure your returns are processed consistently, you and the other parties should agree on a standard set of answers to questions on your R&D project and activities. However, make sure that your claim reflects **your share** of the R&D expenditure in the partnership or joint venture (based on your interest % in the partnership or joint venture), as 2 parties cannot claim for the same expenditure.

Before you file this return

Before you can file your supplementary return, you will need to enrol online for the R&D tax incentive. Log in to your entity's myIR account and enrol at ird.govt.nz

You'll need provide some basic information about your business and R&D project when you enrol. We encourage you to enrol as early as possible.

You should also make sure you have filed, or are preparing to file, your income tax return for the year. It is not necessary to file your income tax return before you file your supplementary return, but we will not be able to process your R&D tax credit claim until we have both returns on file.

From the 2020-21 income year onwards, you'll need to apply for approval of your R&D activity during the income year. You'll use the using the:

- general approval process - if your R&D expenditure will be less than \$2 million during the year
- general approval process **or** the criteria and methodology approval process - if your R&D expenditure will be \$2 million or more during the year.

Criteria and methodology approval is most suited to businesses that perform a large number of R&D projects. Both forms of approval can be applied for online and granted for up to 3 years. It is important to note that your activity will need to be approved before you can claim the tax credit.

How do I file?

The R&D supplementary return must be filed electronically in your myIR account. From the 2020-21 income year, if you have applied for general approval or criteria and methodologies approval, you will still be required to file a R&D supplementary return each year in order to claim your R&D tax credit.

Important: To claim the tax credit you must file both your R&D supplementary return and your income tax return electronically.

Completing the return

The rest of this factsheet guides you through the process of completing the R&D supplementary return.

A lower case *i* with a circle around it is found throughout the return. This icon informs you of relevant criteria and definitions of key terms.

You can save the return at any time by using the **Save draft** button.

Contact

You may receive further contact from us or Callaghan Innovation to clarify details about your R&D project.

For more detailed guidance on the R&D Tax Incentive refer to the **Research and Development Tax Incentive: Guidance - IR1240** on our website at ird.govt.nz

Project information

In the **Project information** screen, you provide us with a basic overview of your R&D project(s) and a summary of your expenditure on each project. We'll use this information to calculate your eligible R&D expenditure for the tax credit. Use the **Add project** button to provide this detail for each project being undertaken. The individual projects will roll up into the **Projects** tab.

Project is not a term used in the R&D tax credit rules, but we recognise that businesses typically organise and manage their R&D through projects. The **Project identifier** is intended to help you, and us, logically group and assess your core and supporting R&D activities. Each project will have 1 or more R&D activities that contribute to it. Note that we do not assess the eligibility of your R&D project, but the eligibility of the R&D activities carried out and expenditure incurred in relation to the project.

If the concept of a project does not resonate with you (for example, you are a start-up, and everything is directed towards one purpose) simply give your R&D a meaningful name in the project identifier space.

Enter a **start** and **end date** for the project. You may not know the end date at this time and can leave it blank.

Provide a brief description of the **objective** of the project, such as what new knowledge, or new or improved product, good or service are you seeking to develop. Your answer must identify what is new or improved in what you are seeking to achieve.

Indicate if the project is being undertaken as a partnership or joint venture. If you select **Yes** for either, you'll be need to provide further details on this later in the return.

Note: If the project is being undertaken via a look-through company, select **Yes** to the partnership question.

Project expenditure

Important: Your eligible expenditure must be over \$50,000 in the income year to qualify for the R&D tax credit, unless you use an approved research provider.

This is your **eligible expenditure** on **eligible activities** (both core and supporting), broken down into expenditure types for this income tax year. You'll need to provide this information at the project level, rather than the activity level.

You must enter the % of the eligible expenditure that relates to the core activities undertaken within the project. The % related to supporting activities will self-populate accordingly.

You are required to state the amounts claimed, if any, within the project expenditure that relate to any of the following:

- commercial production
- internal software development
- feedstock expenditure
- overseas R&D expenditure.

Remember, if the R&D is performed as part of a joint venture or partnership, claim only your share of the R&D.

Important: Expenditure records to support a claim for R&D tax credit are the same as those required for other tax purposes, but additional detail will be required to demonstrate the connection with eligible R&D activity.

Your records must provide an audit trail as to the allocation of eligible expenditure to core and supporting R&D activities within each project.

If you are claiming for more than 1 project, select the **Add project** button at the bottom of the page and a new tab will appear, then complete the necessary details.

Core activities

In the **Core activities** screen, by reference to each project listed in the summary of projects, you provide us with details of what core R&D activities you undertook to resolve the scientific or technological uncertainty in order to create new knowledge, or new or improved processes, services or goods. Use the **Add core activity** button if more than 1 core activity is undertaken.

Make sure your **Title** reflects the core activity being undertaken.

The **Related project** drop down provides you with a list of your projects. Select the applicable project.

Select the appropriate period from the dropdowns for **Activity starts this tax year** and **Activity ends this tax year**.

Description of core activity

All businesses have expenses and most expenses that are part of the cost of running your business are tax-deductible.

These are some examples of tax-deductible expenses:

- **Year 1** - In describing your core activity make sure you clearly describe the activity that occurred in the income year the supplementary return relates to.
- **Year 2 onwards** - In describing your core activity make sure you clearly describe the activity occurring during the period you are seeking general approval for.

Important: Core R&D activity generally **begins** once you have a testable idea, or proposition (hypothesis) which could resolve your scientific or technological uncertainty.

Core R&D activity is expected to **end** when you cease to measure and evaluate the extent to which your activities have resolved the scientific or technological uncertainty.

Complete the remaining sections by providing brief descriptions of each.

If there is more than 1 core activity select the **Add core activity** button at the bottom of the page and a new tab will appear, complete the necessary detail.

Supporting activities

In the **Supporting activities** screen, by reference to each project listed in the summary of projects, you provide us with details of what supporting R&D activities you undertook and why each activity was required for the core activity. Use the **Add supporting activity** button if more than 1 supporting activity is undertaken.

Make sure your **Title** reflects the supporting activity being undertaken.

Select the appropriate period from the dropdowns for **Activity starts this tax year** and **Activity ends this tax year**.

Provide a brief description of the supporting activity.

Describe how the activity **meets the definition** of a supporting activity.

Important: A supporting activity is one that is required for and integral to the core activity **and** its only or main purpose is to support the core activity.

A summary of your core activities will be shown when you **select 1 or more associated core activities**. Select the core activity the supporting activity relates to.

Note: From the 2020-21 income year, details of core and supporting activities will be required as part of the general approval process. The information will pre-populate into your R&D supplementary return and you'll be asked for a declaration that the activities have not materially changed from how you described them in your approval application.

If there is more than 1 supporting activity select the **Add supporting activity** button at the bottom of the page and a new tab will appear, complete the necessary detail.

Joint ventures or partnerships

In the **Joint ventures/partnerships** screen, if you have indicated on the **Project Information** screen that a project was carried out as part of a joint venture, partnership or look-through company, you need to provide us with information relating to each party.

From the drop down under Project identifier select the applicable project. You'll need to provide all of the following information:

- the party's name
- their IRD number (if not known select the **IRD not known** box)
- the monetary value of their share of eligible expenditure
- their % of interest in the joint venture, partnership or look-through company.

Repeat the above for each project that is being carried out as a joint venture, partnership or look-through company.

You must include details of the basis on which each joint venture interest has been determined. If there is more than 1 joint venture, include all of them in this box, separately identifying each by the project title.

Associated persons

The **Associated persons** screen lets you advise us if any person(s) associated with you are also claiming or intending to claim an R&D tax credit for this income year.

We may seek further information about this association from you.

Expenditure

The **Expenditure screen** will self-populate with the total combined expenditure of all projects.

You must complete the declaration at the bottom of the screen.

R&D credits

Once you have calculated your eligible R&D credits you can now choose a method to see if any of the credits are refundable.

Refundability

Two refundability options are available to eligible R&D applicants: Broader refundability method and Limited refundability method.

Broader refundability method

The broader refundability method uses a payroll cap to determine the amount refundable.

The cap includes PAYE, ESCT (employer superannuation contribution tax), and FBT (fringe benefit tax) you have paid for the relevant income year.

It can also include amounts paid by other companies, if those companies control your business or are in the same wholly-owned corporate group.

The refundability cap grouping rules allow certain companies to allocate labour-related taxes they have paid to other companies they control or that sit within the same wholly-owned group.

Please note that an amount of tax paid can only be included in one person's cap (double dipping isn't permitted).

The formula for calculating the refundability cap is:
own tax + other wholly-owned tax + other controller tax = refundability cap.

Own tax refers to the labour-related taxes paid by a claimant for the relevant tax year.

Other wholly-owned tax is the total labour-related taxes allocated to the claimant that have been paid by a member of the claimant's wholly-owned group for the relevant tax year.

Other controller tax is the total labour-related taxes allocated to the claimant that have been paid by a company that directly or indirectly controls the claimant for the relevant tax year.

The refundability cap does not apply to claims made by Industry levy bodies or to eligible expenditure on approved research providers.

Limited refundability method

Under Labour expenditure for company, or group as relevant, detail all labour costs. This allows the calculation of the wage intensity % when compared to the R&D labour expenditure for company or group, which must also be provided.

Wage intensity %

If your wage intensity % is below 20% your tax credits are not refundable and a calculation determining your non-refundable R&D Tax Incentive credits will automatically complete. If your wage intensity % is above 20 then a refundable amount is available up to \$255,000.

Industry levy bodies

Industry levy bodies that have eligible R&D expenditure can now claim a credit of 15%.

Note: Non-refundable R&D tax credits are not applied to tax liabilities from previous years. Any credits left over after applying them against your current year's tax liability may be carried forward to a future income year. For companies, the credit may only be carried forward where shareholder continuity requirements are met. Refundable tax credits will be used to satisfy other tax liabilities you may have, with any amount remaining to be refunded.

Performers of approved research

In the **Performers of approved research** screen you provide us with details of the approved research providers that you have used on your project(s) when your total eligible expenditure is below \$50,000.

You are required to provide both their:

- IRD number
- name.

Attachments

Use the **Attachments** screen to upload any documents you want to provide to us.

Evaluation

In the **Evaluation** screen we are seeking information to assist in evaluating the R&D tax credit regime, as is required by the legislation (section LY10 of the Income Tax Act 2007).

Enter the amount of **Historical R&D expenditure** incurred by you in the prior income year. From the drop down select the source of this figure.

Select the appropriate responses for **Ineligible expenditure on R&D**. If applicable, enter the amount of expenditure that was not approved.

If you select **Yes** for the **follow-up survey**, complete accordingly.

Note: The information gathered in the evaluation section does not form part of your R&D claim.

Review

The **Review** screen shows you:

- a summary of all the expenditure information you have given us on all your projects
- your total tax credits and how this figure was calculated
- how much, if any, of the credit is refundable and how much is non-refundable.

Once you have checked all information select the **Submit** button to submit your R&D supplementary return.



ird.govt.nz

Go to our website for information and to use our services and tools.

- Log in or register for myIR - manage your tax and entitlements online.
- **Calculators and tools** - use our calculators, worksheets and tools, for example, to check your tax code, find filing and payment dates, calculate your student loan repayment.
- **Forms and guides** - download our forms and guides.

Forgotten your user ID or password?

Request these online from the myIR login screen and we'll send them to the email address we hold for you.

Supporting businesses in our community

Our Community Compliance officers offer free tax education and advice to businesses and small organisations, as well as seminars for personal tax and entitlements.

Our Kaitakawaenga Māori offer a free advisory service to help meet the needs of Māori individuals, organisations and businesses. To attend a seminar or workshop, or request a visit from us.

Find a seminar or workshop near you at ird.govt.nz/contact-us/seminars

Go to ird.govt.nz/contact-us and select the In person option to find out about requesting a visit.

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