Regulatory Impact Statement: In-year payments of the Research and Development Tax Incentive

Decision sought	*Agree to introducing in-year payments of the Research and Development Tax Incentive through the tax system*
Agency responsible	*Inland Revenue*
Proposing Ministers	*Minister of Finance* *Minister of Revenue* *Minister of Science, Innovation and Technology*
Date finalised	*31 July 2026*

Description of Ministers' regulatory proposal

Currently, some businesses may receive Research and Development Tax Incentive (RDTI) credits more than 14 months after the end of the income year they incur the research and development (R&D) expenditure. In-year payments would allow businesses to receive regular cash payments within the relevant income year based on their expected RDTI tax credits. This improves cashflow for businesses in tax-loss or low-profit positions.

Summary: Problem definition and options

What is the policy problem?

The RDTI is a 15% tax credit for eligible R&D expenditure on eligible R&D activities. RDTI tax credits are processed only after a business has filed its income tax return and associated RDTI supplementary return. This can be more than 14 months after the end of the income year in which the R&D expenditure was incurred.

Delayed payment of the tax credit reduces the value of the RDTI. It limits the ability of low-profit or loss-making businesses to use the credit to support cashflow management. It also erodes the value of the credit through the time value of money and opportunity costs.

Stakeholders consider providing an ability to claim RDTI tax credits during the year the R&D is performed could improve the effectiveness and uptake of the RDTI, particularly for cashflow-constrained businesses.

What is the policy objective?

The objective of the RDTI is to increase R&D expenditure undertaken in New Zealand, thereby increasing spillover benefits from that R&D (new knowledge, technology and skills that benefit the wider economy). The objective of in-year payments is to provide tax credits closer to the time the relevant R&D spending is incurred, which may encourage more R&D

expenditure from cashflow-constrained businesses in tax-loss or low-profit positions, such as R&D-intensive start-ups. This needs to be balanced against the integrity risk of overpaying businesses compared to their eligible RDTI expenditure, leading to tax debt.

What policy options have been considered, including any alternatives to regulation?

A non-tax alternative, a temporary in-year payment loan scheme, was previously trialled but closed early due to high administrative and operational costs, low uptake, and low repayment rates. That scheme was intended as a stop-gap measure until in-year payments could be delivered through the tax system. Based on the earlier trial, this RIS does not reconsider non-tax delivery mechanisms.

Officials have considered the status quo of no in-year payments (Option 1) and three options for delivering in-year RDTI payments through the tax system.

In-year payment options

Across all in-year payment options, businesses with an approved RDTI application could elect to receive up to four payments during the year in which eligible R&D expenditure is incurred.

Option 2 retains the existing refundability cap for RDTI refunds, which limits refunds to labour-related taxes. This option is intended to provide the same overall amount of RDTI credits as the status quo but would deliver R&D support to businesses earlier and more frequently. The administrative costs of providing in-year payments are estimated to be about $0.6 million per year in ongoing operating costs and a one-off $1.4 million capital cost in 2026/27.

Option 3 would remove the RDTI scheme's current refund cap. This means businesses with low ratios of labour-related taxes, such as small start-ups, would receive additional RDTI support compared with the status quo and Option 2. Inland Revenue estimates that Option 3 could provide additional support to about 60 businesses each year totalling $21.3 million over the four-year period 2026/27 to 2029/30 and $5.8 million per year in subsequent years. There would be corresponding fiscal costs for the Government, plus similar administration costs to Option 2.

Option 4 requires businesses to provide a detailed assessment of R&D spending to receive in-year payments. While this improves accuracy, it requires more frequent and detailed reporting and assessment of expenditure, creating much higher compliance and administrative costs than the other options (these costs would require further consultation to estimate).

Inland Revenue recommends the status quo (Option 1). This reflects a judgement that the compliance costs, administrative costs, and increased integrity risk could outweigh the cashflow benefit of in-year payments for R&D businesses in tax-loss or low-profit positions, particularly if uptake is low. However, this is a finely balanced judgement, and if the Government places more weight on potential cashflow benefits, Inland Revenue considers Option 2 would be the second-best option because it delivers the intended cashflow benefit of more regular RDTI payments while retaining the refund cap helps manage some of the increased integrity risk of overpayment and tax debt.

The Ministry of Business, Innovation and Employment (MBIE) considers Option 3 has the highest net benefits. This is because it provides more support than Option 2 for a subset of R&D businesses (those with relatively low labour taxes such as capital-intensive start-ups) who are generally more sensitive to R&D subsidies than other businesses, delivering greater benefit to the wider economy.

What external consultation has been undertaken? There has been support for an in-year payments scheme from stakeholders since the RDTI was introduced, including during consultation in 2021, 2023, 2025 and June 2026. Stakeholders who have been regularly consulted include accounting firms, the Research and Development Advisory Group,[1] and Chartered Accountants Australia and New Zealand. Stakeholders consider that limiting in-year payments to labour-related taxes would not be suitable for all businesses because their R&D costs may, in large part, comprise costs other than labour costs. In response to this feedback, officials developed and considered Option 3, which would not limit in-year payments based on labour costs. Businesses did not react to the in-year payments loan scheme being closed early in May 2024 and have not made many submissions since asking the Government to implement in-year payments through the tax system. Stakeholders consider delivering in-year payments through the tax system would have better uptake than the previous loan scheme because it would not add to a firm's overall debt.
Is the preferred option in the Cabinet paper the same as preferred option in the RIS? No, Ministers' preferred option is Option 2 (in-year payments), while Inland Revenue's preferred option is the status quo and MBIE's preferred option is Option 3 (in-year payments and remove the labour taxes cap on RDTI refunds).

Summary: Ministers' preferred option in the Cabinet paper

Costs
Description of costs and where they fall The cost of Inland Revenue implementing and administering RDTI in-year payments is estimated to be about $0.6 million per year in ongoing operating costs and a one-off $1.4 million capital cost in 2026/27. In-year payments will increase the integrity risk of overpaying businesses compared to their eligible RDTI, leading to tax debt. They increase compliance costs for R&D businesses that choose to receive in-year payments because they would need to apply and submit RDTI information throughout the year.
Benefits
Description of benefits and where they fall Improved cashflow for firms which perform R&D, particularly loss-making and low-profit startups. The previous temporary loan scheme had low uptake (about 100 firms). While we expect the option would have higher uptake, this is uncertain. For cashflow constrained businesses, quarterly in-year payments allow the reinvestment of credits into R&D activities, potentially increasing annual R&D spend with no additional investment by the business. Improving cashflow for R&D intensive start-ups may also

[1] A consultative committee, comprising officials and representatives from accounting firms and R&D businesses to function as a forum for identifying and resolving issues with the RDTI.

mitigate some short-term funding constraints for these businesses that can find it difficult or expensive to raise debt or capital.

In-year payments may increase uptake of RDTI because it will make the incentive more effective for cashflow-constrained firms. To the extent it increases R&D activity, there may be additional spillover benefits (such as, new knowledge, technology and skills) for other firms and researchers.

Balance of benefits and costs

Does the RIS indicate that the benefits of Ministers' preferred option are likely to outweigh the costs?

This depends on judgements about the potential cashflow benefits of Option 2 to firms compared to the compliance costs, administration costs and integrity risks. Inland Revenue considers these costs could outweigh the cashflow benefits (especially if uptake is low), whereas MBIE and Ministers consider the benefits are likely to be higher.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

Inland Revenue will be responsible for delivering in-year payments through the tax system. Legislation is required to enable this. It is intended that in-year payments of the RDTI be available for the 2027–28 tax year, with the first payment of in-year payments being made after 1 October 2027.

The main risk is low uptake reducing the net benefits of the scheme given certain fixed administration costs. While the previous temporary loan scheme was shut down early due to low uptake and high administrative costs, these issues have been considered in the design, which is intended to reduce manual handling and mitigate the operational risks that affected the earlier scheme. Another implementation risk is the possibility of overpayments, resulting in debt.

The initiative will be monitored by the number of businesses receiving in-year payments, the value of in-year payments and the extent to which in-year payments accurately reflect eligible RDTI. Officials also meet regularly with key external stakeholders who will provide feedback on the policy settings and delivery of in-year payments.

Limitations and constraints on analysis

There is uncertainty about the uptake of the in-year payments scheme and the amount of cashflow benefit it may provide to firms opting to use it. The previous temporary loan scheme had low uptake (about 100 firms), and while we expect delivery through the tax system will have higher uptake, the uptake is uncertain.

Changes in take-up of the RDTI have not been estimated as a part of this analysis. The existing forecasts and financial appropriations for the RDTI assume optimal take-up (that is, any business performing eligible R&D in New Zealand is assumed to participate in the RDTI).

Some of the detailed design settings are still being confirmed within Inland Revenue given that the implementation of in-year payments is a significant initiative. We consider that any changes to design settings are likely to be administrative details that are unlikely to impact the overall analysis of the options presented here.

I have read the Regulatory Impact Statement, and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits, and impact of the preferred option.

s 9(2)(a)

Responsible Manager signature:

Claire McLellan
Acting Policy Lead
Inland Revenue
31 July 2026

Quality Assurance Statement	
Reviewing Agency: Inland Revenue	**QA rating:** Meets
Panel Comment: An Inland Revenue quality assurance panel has reviewed the Regulatory Impact Statement (RIS) prepared by Inland Revenue and considers that the information and analysis summarised in the RIS **meets** the quality assurance criteria for Ministers to make informed decisions on the proposals in the paper.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The Research and Development Tax Incentive (RDTI) aims to increase business expenditure on research and development (R&D). It was implemented in 2019 to support a wide range of R&D-performing businesses and is the Government's main mechanism to support business R&D. Without government support, businesses may invest in less R&D than is optimal because, due to spillover benefits (new knowledge, technology and skills that benefit the wider economy), they are unable to capture the full benefits of their investment.

2. The RDTI operates as a refundable tax credit equal to 15% of eligible R&D expenditure incurred on eligible R&D activities.

3. The recent five-year evaluation of the RDTI found that the scheme is functioning as intended and its broad economic impacts compare well with international benchmarks. In particular, the RDTI has generated an estimated $1.40 in additional R&D expenditure for every dollar of government investment, broadly equivalent to the OECD average of $1.37. Businesses supported by the RDTI spent on average $274,000 more each year on R&D than they would have in the absence of RDTI support. The RDTI evaluation noted business concerns with delays in processing supplementary returns but otherwise did not mention cashflow concerns.

4. The design of the RDTI involves a trade-off between stimulating R&D and maintaining the integrity of the tax system. The effectiveness of a financial incentive relies on that payment being timely and easily accessed to maximise uptake. However, this can generate integrity risks. The rules to mitigate integrity risks can delay payment and increase compliance costs, discouraging take-up.

5. The current structure of how the RDTI is paid out reflects a weighting towards integrity. The credit is disbursed only once the relevant income tax return is filed, so the payment amount has high certainty. The RDTI is applied as a tax credit to offset any taxable profits the business makes. Any excess credits can be cashed-out subject to a refund cap. This cap limits cash refunds to the amount of labour-related taxes paid by the business. This helps ensure RDTI refunds are received by real businesses that have employees and other workers.

6. However, businesses can face a considerable wait between incurring R&D expenditure and receiving the benefit of the RDTI associated with that expenditure. This is because RDTI tax credits are processed after businesses have filed their income tax return and a supplementary RDTI return (which can be over 14 months after the end of the relevant income year).[2]

[2] For example, a business with a standard balance date seeking to claim RDTI for the 2026 tax year (ending 31 March 2026) must apply for approval by 7 May 2026 and, if it has an extension of time, file its RDTI supplementary return by 30 April 2027. If filed close to these deadlines, the associated tax credits would not be processed until at least May 2027, despite the underlying expenditure having been incurred between 1 April 2025 and 31 March 2026.

Temporary in-year payments loan scheme

7. While a mechanism to provide in-year payments was considered when the RDTI was being developed, its complexity meant it was not included in the original design. Instead, the Government planned to introduce in-year payments through the tax system in the future.

8. To provide in-year payments in the interim, a temporary loan scheme was introduced by MBIE, and initially administered by Tax Management New Zealand.

9. The loan scheme was active between March 2023 and May 2024. It was used as a temporary mechanism to improve cashflow for R&D-performing businesses, and to allow time for Inland Revenue to develop a permanent solution for providing in-year payments through the tax system. The loan scheme was closed in May 2024, one year earlier than scheduled because it was judged not to be delivering value for money. The in-year payments loan scheme had a high fiscal cost to administer due to greater manual processing than had been originally envisaged, as well as significant operational risks, and much lower uptake than anticipated. Only 101 businesses received loans totalling approximately $40 million, whereas it was originally estimated up to 1,250 businesses could receive loans totalling $200 million for the same period.

10. The low uptake may have been due to it being delivered as a loan that added to a firm's overall debt and had to be repaid once the RDTI tax credit was received (incurring interest to the extent it was repaid after that time). Delivering it outside the tax system also increased compliance costs because it required interacting with other parties and was not aligned with other tax filing processes.

11. Businesses did not react to the loan scheme being closed early and have not made many submissions since asking the Government to implement in-year payments through the tax system.

What is the policy problem or opportunity?

12. Businesses can face a considerable wait between incurring R&D expenditure and receiving the benefit of the RDTI associated with that expenditure. This can disincentivise take-up of the RDTI, ultimately impacting the RDTI's ability to increase R&D.

13. The timing mismatch between when R&D expenditure is incurred and when the RDTI tax credits are received particularly impacts businesses that are in tax-loss or low-profit positions which often face cashflow challenges. Delayed payment reduces the value of the RDTI for these firms in two ways. First, it limits the ability to use the credit to support cashflow management. Then it erodes the value of the credit through the time value of money and opportunity costs because the credits could have been used to finance investments (including in additional R&D) or reduce the firm's financing costs.

14. Compounding this problem is that the RDTI is less valuable for businesses in tax-loss or low-profit positions relative to businesses in higher-profit positions. Profit-making businesses can get cashflow benefits from the RDTI by reducing their provisional tax payments, either by using the default method to benefit from the prior year's RDTI tax credit or the estimation method to benefit from their anticipated RDTI tax credit for the current year. In contrast, businesses in tax-loss or low-profit positions must wait until they have filed their income tax return before they can benefit from the RDTI. While businesses could potentially manage RDTI cashflow delays through private borrowing,

R&D-intensive firms often have limited access to affordable finance and would incur additional financing costs.

15. The refundability cap can also further delay cashflow from the RDTI for about 60 loss-making and low-profit businesses each year that have low labour costs compared to their total R&D spending. For example, if a business qualified for $1 million of RDTI tax credits for the year but is in a tax-loss position, they only receive a cash refund equal to their labour-related taxes (such as PAYE). If this amount was $0.8 million, they would receive a cash refund of $0.8 million and would carry-forward the remaining $0.2 million of RDTI tax credits to use in a subsequent tax year.

16. Delays in receiving the financial benefit of the tax credits may impact the effectiveness of the RDTI in supporting business expenditure on R&D. Offering in-year payments would increase the appeal of the RDTI to firms in tax-loss or low-profit positions. Available data indicates that uptake of the RDTI among profitable businesses has been broadly in line with expectations, while uptake has been lower among businesses in tax-loss positions. Payment delays may be contributing to lower participation among these firms, reducing the overall effectiveness of the RDTI in encouraging additional R&D investment.

What objectives are sought in relation to the policy problem?

17. The objective of the RDTI is to increase R&D expenditure undertaken in New Zealand, thereby increasing spillover benefits from that R&D for New Zealand. The objective of in-year payments is to induce more R&D expenditure from cashflow-constrained businesses in tax-loss or low-profit positions, such as R&D-intensive start-ups. This would be achieved by reducing the timing mismatch between when R&D costs are incurred and when the RDTI is refunded. This needs to be balanced against the integrity risk of overpaying businesses compared to their eligible RDTI expenditure, leading to tax debt.

What consultation has been undertaken?

18. Consultation was undertaken in 2021 and in 2023 on the high-level design of in-year Payments.

19. Stakeholders expressed support for a widely available regime that minimises the administrative and compliance burden and prioritises distributing payments to businesses in a timely fashion. In terms of integrity measures, there was general support for applying use of money interest when a business claims more in in-year payments than they are entitled to.

20. The design used in the 2023 consultation proposed to use Employment Information schedules (payroll information) as a basis for limiting in-year payments (Option 2). A repeated stakeholder concern was that using Employment Information would not be suitable for all businesses because their R&D costs may, in large part, comprise costs other than labour costs. In response to this feedback officials developed and considered Option 3, which would not limit in-year payments based on labour costs.

21. In 2025, Inland Revenue undertook targeted consultation to get general feedback on the RDTI scheme from the R&D Advisory Group, professional services firms, and business representative groups. Many stakeholders expressed frustration at the delay in receiving funding due to the extensive review process. Some stakeholders advised the delay between the R&D expenditure and receiving the tax credit could be between 12 and 18

months, and that long delays between expenditure and credit receipt can reduce the incentive value of participating in the RDTI scheme.

22. In 2025, MBIE undertook targeted consultation with Business NZ, members of the Employers and Manufacturers Association, and the Small Business Advisory Group. In this consultation, stakeholders expressed a provision for in-year payments would help support cashflow and reinvestment in R&D in their businesses. This perspective was heard most from smaller firms.

23. In June 2026, Inland Revenue and MBIE officials met the R&D Advisory Group to discuss the proposal to implement in-year payments that was announced at Budget 2026. These stakeholders supported in-year payments but noted some start-ups have their RDTI refunds capped by their labour-related taxes and would benefit more if this cap was removed (as per Option 3). They considered delivering in-year payments through the tax system would have better uptake than the previous loan scheme because it would not add to the firm's overall debt. They suggested the new system should allow firms to apply for "catch-up" payments, such as claiming all four in-year payments after the end of the fourth quarter because this could reduce compliance costs.

Section 2: Assessing options to address the policy problem

What criteria will be used to compare options to the status quo?

24. The criteria used to compare options are:

- cashflow benefit
- compliance costs
- administrative costs
- integrity and overpayment risk.

25. While all criteria are important, the key criterion (especially when measuring the options against the status quo) is cashflow benefit. This is because this criterion is most directly relevant to the problem definition concerning the timing mismatch between when R&D expenditure is incurred and when the benefit of the RDTI is received. The cashflow benefit is expected to increase business expenditure on R&D by making the RDTI more attractive to businesses and, therefore, ultimately increase innovation and productivity. This criterion relates to the RDTI's overall objectives.

26. In-year payments create additional integrity risks of some businesses being overpaid compared to their eligible R&D expenditure resulting in tax debt. Inland Revenue places a high weight on integrity risk because if cashflow-constrained firms owe tax debt it will undermine the intended cashflow benefit.

27. There are other trade-offs between the criteria. For example, reducing integrity risk could require more information and verification, which could increase business compliance costs and Inland Revenue's administrative costs.

What scope will options be considered within?

28. There is limited ability to address the policy objective through non-regulatory options. Inland Revenue has been working to reduce the time taken to process supplementary returns. However, speeding up processing does not address the fundamental timing mismatch inherent in the RDTI design.

29. As mentioned earlier, a loan scheme was put in place between between March 2023 and May 2024 as a temporary measure until in-year payments through the tax system could be implemented. The loan scheme ended early because it was judged not to be delivering value for money. Given the low uptake and early closure of the loan scheme, we consider there is not a good case for reconsidering a loan scheme.

30. This RIS is therefore limited to considering different options for delivering in-year payments through the tax system against the status quo.

What options are being considered?

31. Officials have considered the status quo and three options for delivering in-year RDTI payments through the tax system.

Option 1: No in-year payments (status quo)

32. Under the status quo, the RDTI would continue to be paid only after year-end as part of the income tax return process. This option maintains the existing timing mismatch between when R&D expenditure is incurred and when the RDTI benefit is received.

33. As a result, businesses—particularly those in losses or with cashflow constraints—may wait up to two years to access the value of the credit. This reduces the effective value of the RDTI to those firms and may limit take-up. Compliance and administrative costs would remain unchanged. There would be no additional integrity risks, including concerns that business debt may increase.

In-year payment options (common features)

34. Across all in-year payment options, businesses with an approved RDTI application could elect to receive payments during the income year in which eligible R&D expenditure is incurred, rather than waiting until after filing their income tax return. Payments would be available up to four times per year capped at 80% of approved expenditure to mitigate overpayment and integrity risks.

35. A wash-up calculation at year-end would reconcile total in-year payments against the final RDTI entitlement determined through the supplementary return process. Any overpayments would be recoverable, with use of money interest applying.

36. MBIE commissioned Infometrics in 2021 to assess the economic impacts of delivering the RDTI through in-year payments. Using a discounted cashflow framework that accounted for financing costs, and compliance and administration costs, Infometrics found that quarterly in-year payments materially increase the effective value of the RDTI. At the firm level, the estimated net present value of a $100 investment every quarter for two years increased from $800 under end-of-year payment to $894 with in-year payments, reflecting more regular payments would reduce opportunity costs and financing costs. Infometrics considered an in-year payments scheme would deliver net

benefits for New Zealand after accounting for the expected compliance and administration costs.

Option 2: In-year payments

37. Option 2 delivers four quarterly in-year payments to improve R&D business cashflow, particularly for loss-making businesses.

38. Option 2 is intended to provide the same overall amount of RDTI credits as the status quo but would deliver R&D support to businesses earlier and more frequently than the status quo. Because profitable firms can already use their RDTI tax credits to reduce their provisional tax payments, loss-making and low-profit firms are more likely to benefit from receiving in-year payments.

39. Option 2 retains the existing refundability cap for RDTI refunds, which limits refunds to labour-related taxes reported through employment information. This cap reduces integrity risks but means the cashflow benefit of providing in-year payments are smaller for about 60 businesses that have low labour costs compared to their R&D expenditure. Option 3 below considers the additional benefits from removing the refund cap.

40. The administrative costs for Inland Revenue to provide in-year payments are estimated to be about $0.6 million per year in ongoing operating costs and a one-off $1.4 million capital cost in 2026/27.

41. Option 2 increases the integrity risk of overpaying firms compared to their eligible RDTI, leading to tax debt, but the integrity risk is lower than for Option 3. It would increase the amount of cash refunds paid (which are a higher risk than tax credits offsetting taxable income) and more refunds would be based on firms' estimated expenditure rather than actual eligible spending that has been verified by Inland Revenue.

Option 3: In-year payments and remove the labour taxes cap on RDTI refunds

42. Option 3 includes implementing in-year payments based on a firm's estimated expenditure as per Option 2. However, it would also remove the RDTI schemes current refund cap, which limits refunds to the amount of labour-related taxes paid by the business.

43. This means businesses with low labour-related tax payments, such as small or deep-tech start-ups, would receive additional RDTI refunds under Option 3 compared to the status quo and Option 2. They would also benefit from in-year payments to the same extent as other businesses. This maximises the cashflow benefit of the RDTI and aligns most closely with the policy objective of improving the timing of support.

44. Inland Revenue estimates that Option 3 may provide additional RDTI refunds to about 60 businesses each year totalling $21.3 million over the four-year period 2026/27 to 2029/30 and $5.8 million per year in subsequent years. There would be corresponding fiscal costs for the Government.

45. If the refund cap had not applied in 2024 (the latest year of available data), a few businesses could have claimed $1 million to $2 million of additional RDTI refunds. However, for most of the affected businesses, the additional refunds would have been

modest, as reflected by a median additional refund of about $12,300 and an upper quartile of about $26,000.[3]

46. Removing the refundability cap weakens an existing integrity safeguard, increasing risks of overpayment or fraudulent claims. While these risks could be mitigated through approval processes, enhanced scrutiny of higher-risk applicants and charging penalties and interest on overpayments, they are higher than under the status quo or Option 2. Imposing additional checks or safeguards to manage the integrity risk would increase compliance costs and administrative costs and could delay payments.

47. Option 3 involves similar administrative costs for Inland Revenue as Option 2 ($0.6 million per year ongoing operating costs and a one-off $1.4 million capital cost in 2026/27), although these costs would become higher if additional safeguards were required to manage integrity risk.

Option 4: In-year payments with detailed assessment of R&D spending

48. Option 4 would require businesses who elect to receive in-year payments to compile and submit detailed expenditure information, similar to the information currently required in a supplementary RDTI return (submitted when businesses file their annual income tax return for the year).

49. This significantly increases compliance costs for businesses and administrative costs for Inland Revenue because each claim would require a detailed assessment and review. We have not estimated these additional compliance and administrative costs because it would require further consultation with the affected businesses to estimate them.

50. Disbursements would also be slower, reducing the cashflow benefit relative to Option 2 and Option 3. While this option improves payment accuracy, integrity risks of overpayment compared to eligible expenditure would still be higher than the status quo because Inland Revenue would have less time, data (from the income tax return or audited business accounts) and resources available to verify eligible spending compared to the current end-of-year process.

[3] For comparison, the median amount of RDTI refunds the affected firms received in 2024 with the refund cap in place (status quo) was about $18,000 and the upper quartile about $62,000.

How do the options compare to the status quo/counterfactual?

	Option 1– *Status quo*	Option 2 – In-year payments	Option 3 – In-year payments and remove labour taxes cap on RDTI refunds	Option 4 – In-year payments with detailed assessment of R&D spending
Cashflow Benefit (higher weighting)	0	+	++	+
Compliance Costs	0	-	-	- -
Administrative Costs	0	-	-	- -
Integrity and overpayment risk	0	-	- -	0
Overall assessment	0	+	+	0

++ much better than the status quo
+ better than the status quo
0 about the same as the status quo
- worse than the status quo
- - much worse than the status quo

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

51. Inland Revenue recommends the status quo (Option 1). This reflects a judgement that the compliance costs, administrative costs and increased integrity risk could potentially outweigh the cashflow benefit of in-year payments for R&D businesses in tax-loss or low profit positions, particularly if uptake was low. However, this is a finely balanced judgement and if the Government places more weight on potential cashflow benefits, Inland Revenue considers Option 2 would be the second-best option because it delivers the intended cashflow benefit of more regular RDTI payments. Option 2 maintains the RDTI's scheme's current refund cap, which limits refunds to labour-related taxes paid and helps manage some of the increased integrity risk of overpayment and tax debt.

52. MBIE advises jointly with Inland Revenue on the RDTI. MBIE recommends an in-year payment scheme be adopted. MBIE considers Option 3 has the highest net benefits with Option 2 being second best. This reflects MBIE's view that the cashflow benefits of an in-year payment scheme significantly outweigh the compliance and administration costs, while any additional integrity risk is both managed and warranted in relation to the benefits. Broadly, in-year payments disproportionally support smaller entities and those with higher R&D intensities that are generally more sensitive to R&D subsidies than other businesses. This will deliver greater impact from the R&D credits, delivering greater economic benefit and aligning with the wider economic growth and innovation, technology and science objectives. Option 3 is preferred because it delivers the benefits of Option 2, while further supporting a subset of R&D performers such as deep-tech start-ups with relatively high capital and non-labour related costs. MBIE considers this best aligns with the Government's innovation agenda.

Is Ministers' preferred option in the Cabinet paper the same as the agency's preferred option in the RIS?

53. No, Ministers' preferred option is Option 2 (in-year payments), while Inland Revenue's preferred option is the status quo and MBIE's preferred option is Option 3 (in-year payments and remove the labour taxes cap on RDTI refunds).

54. While Option 3 would produce a higher amount of cashflow benefit for about 60 firms per year, there would be a corresponding fiscal cost of providing additional refunds and a greater integrity risk.

What are the marginal costs and benefits of the preferred option in the Cabinet paper?

Affected groups	Comment	Impact	Evidence certainty
Additional costs of preferred option compared to taking no action			
R&D performing firms	Compliance costs of applying for in-year payments and submitting new returns up to four times during the year.	Low. These costs are discounted because in-year payments would be optional and design will aim to minimise compliance costs.	Medium
Affected groups	**Comment**	**Impact**	**Evidence Certainty**
Inland Revenue	Implementation and administrative cost.	$0.6m per year ongoing operational costs and one-off $1.4m capital cost in 2026/27	High
Inland Revenue	Increased integrity risk of overpaying businesses compared to their eligible RDTI, leading to tax debt.	Medium	Low Risk depends on business behaviour and uptake of in-year payments.
Total monetised costs		$0.6m per year ongoing operational costs and one-off $1.4m capital cost in 2026/27.	High
Non-monetised costs		*Medium*	*Low*
Additional benefits of preferred option compared to taking no action			
R&D performing firms	Potential cashflow benefits particularly for loss-making or low-profit firms, such as startups. For cashflow-constrained businesses, in-year payments allow the reinvestment of credits into R&D activities, potentially increasing annual R&D spend. Improving cashflow for R&D intensive start-ups may also mitigate some short-term funding constraints for these businesses that can find it difficult or expensive to raise debt or capital. May increase uptake of RDTI and R&D spending because it will make the incentive more effective for cashflow-constrained firms.	Medium. About 100 firms used the 2023–4 temporary loan scheme to receive $40m of loans. Delivery through tax system is expected to improve uptake and lead to higher payments but this is difficult to estimate.	Low Cashflow benefit depends on uptake, the extent the recipients are cashflow-constrained, and the cost of other sources of funding, which are unknown.
Other businesses and researchers	To the extent in-year payments increase R&D activity, there may be	Low	Low

	additional spillover benefits (ie, new knowledge, technology and skills) for other firms and researchers.		
Total monetised benefits		N/A	N/A
Non-monetised benefits		*Medium*	*Low*

Section 3: Delivering an option

How will the proposal be implemented?

55. Inland Revenue will be responsible for delivering and maintaining in-year payments through the tax system.

56. Legislation is required to enable in-year payments. It is intended that in-year payments of the RDTI be available for the 2027–28 tax year, with the first payments of in-year payments being made after 1 October 2027.

57. While Inland Revenue has the capabilities to implement in-year payments through its systems, in-year payments are reasonably complex to design, build, test, and implement. Any subsequent changes to the policy design, to the extent they impact on system design, could delay the start date for the first in-year payments. Delivering this initiative must also fit around a range of other initiatives Inland Revenue is responsible for implementing and delivering, meaning there are other system changes that could affect the delivery of the initiative.

58. A clear theme in stakeholder feedback on in-year payments was the need for these payments to be straightforward for businesses to access. This has informed the design of the proposal including minimising the amount of information they will be required to submit. Because in-year payments will be optional, businesses could choose whether to incur any compliance costs and can opt-in from a later date if they need more time to prepare for in-year payments.

59. Inland Revenue will produce further guidance material for the affected businesses and their tax advisors such as webpages, webinars and guides to support businesses to access in-year payments.

60. While the previous temporary loan scheme was shut down early due to low uptake and high administrative costs, these issues have been considered in the design of the proposed in-year payments scheme. In particular, the proposed scheme will be supported by system changes to automate the processing of in-year payments to the greatest extent possible. This is intended to reduce manual handling, improve timeliness and accuracy, and mitigate the operational risks that affected the earlier scheme.

61. Another key implementation risk is the possibility of overpayments, resulting in debt. This risk is more pronounced in the target population because firms accessing in-year payments are likely to be cashflow constrained.

How will the proposal be monitored, evaluated, and reviewed?

62. As part of the legislation that introduced the RDTI, the Government is required to commission an evaluation of the regime every five years from the commencement of the scheme. In-year payments through the tax system would fall within the scope of the next evaluation which is due in 2030.

63. Regular reporting on the RDTI occurs in the form of a dashboard containing statistics on uptake across a range of different metrics. Statistics on the number of businesses receiving in-year payments and the value of in-year payments made will be added to this dashboard for monitoring by agencies. When the final RDTI returns are filed and reviewed, Inland Revenue will review the extent to which in-year payments accurately reflect eligible RDTI.

64. Inland Revenue and MBIE have engaged, and will continue to engage, with interested stakeholders on the RDTI and in-year payments. This includes R&D businesses, tax advisors, and groups like the Research and Development Advisory Group and Chartered Accountants Australia and New Zealand, as well as members of the wider business community.

65. This ongoing feedback will inform the monitoring and review of the impact of in-year payments and help identify any policy or implementation issues. If uptake of in-year payments was low, officials could provide further advice to Ministers on how to improve the design or delivery of in-year payments or whether to continue the scheme (if the benefits appear low relative to ongoing compliance and administrative costs).