



Information Sheet

This information sheet explains the current policy proposal included in Budget 2026. The proposal may change as the legislation moves through the parliamentary process. The information is up to date as at 28 May 2026.

Research and Development Tax Incentive

What are the proposed changes?

The Government proposes improvements to the Research and Development Tax Incentive (RDTI), to ensure it remains well targeted, supports innovation, and operates as intended to increase business investment in research and development (R&D).

The package of changes would improve cashflow for start-ups with in-year payments, provide administrative flexibility, allow mining R&D businesses to claim similar costs as other industries and would lower the existing cap on internal software spending to \$3 million per year.

Most of these proposed changes would apply from the 2027–28 income year.

In-year payments

Currently, there can be long delays between when R&D expenditure is incurred and when the tax incentive is verified and paid to the business.

Proposed in-year payments would allow businesses to receive quarterly cash payments throughout the year based on their expected RDTI. This would improve cashflow for innovative start-ups.

In-year payments would be limited to the amount of labour-related taxes paid by the business, consistent with the current rules for RDTI cash refunds.

Administrative flexibility

A proposed amendment to administrative rules from 1 April 2027 would provide Inland Revenue with discretions to accept late RDTI returns and to amend minor administrative errors in RDTI returns.

This would ensure that R&D businesses are not disadvantaged if they make a small mistake or if events outside their control cause their RDTI returns to be filed late.

Expanding eligible mining R&D expenditure

Currently, mining businesses can only claim the RDTI for labour-related R&D costs and for depreciable tangible assets that are solely used to perform R&D.

The proposed changes would expand the range of R&D expenditure mining businesses can claim under the RDTI, so it is similar to other industries.

Internal software cap

The RDTI cap for claims on internal software expenditure would be lowered from \$25 million to a proposed \$3 million per year.

Lowering the existing cap for internal software expenditure would improve the cost effectiveness of the

RDTI by prioritising other types of R&D that are more likely to generate new knowledge, technology and skills that benefit the wider economy.

Internal software development often involves incremental improvements to internal systems and processes, which are likely to have limited spillover benefits for other businesses and the wider economy.

Expenditure on software development for the purpose of internal administration such as payroll or inventory is already ineligible for the RDTI.

Expenditure on software developed for other internal purposes is currently eligible for the RDTI up to a cap of \$25 million of spending. This cap would be reduced to \$3 million from the 2027–28 income year.

This proposed change would only affect a small number of businesses that spend more than \$3 million per year on eligible internal software R&D. From 2027–28 these businesses would receive RDTI tax credits for the first \$3 million of this expenditure.

Other types of R&D spending, such as R&D to develop external software products that will be sold or licensed to customers, would be unaffected.