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## **Removing R&D tax incentives – bad for innovation**

National's leaked policy on research, science and technology would reduce the tax credit available for Research and Development (R&D) in favour of Government targeted funding. This is a continuation of a strategy from politicians that they will favour certain areas of the economy over others. The New Zealand Manufacturers and Exporters Association (NZMEA) promotes incentives like the R&D tax credit that are delivered through the tax system.

The Fast Forward Fund is an example of the Government attempting to 'pick winners' in the economy rather than simply providing an incentive, as the R&D tax credit does, for businesses to carry out research in the most profitable areas. Targeted funds simply distort growth towards the favoured sectors leaving the economy weaker as a whole. Growth in other sectors becomes limited as people chase the Government funds and the economy becomes more prone to economic shocks as growth is focused on a narrow group of businesses.

NZMEA Chief Executive John Walley says, "Investment in innovation is needed to fuel new products and processes, which can claim a return from world markets. A tax credit encourages greater R&D investment. Winners are easy to see in hindsight but are difficult to predict. The only certain way to have more winners is to have more starters, hence the value of encouraging more investment."

"Furthermore, the R&D tax credit only levels the playing field as many other countries also have supportive tax and depreciation regimes that incentivise their industrial base. A lot is made of the higher wages and better opportunities available in Australia; innovation is required to produce increasingly complex products for export and create better opportunities that support higher wages. Any change would be a major step backwards."

"Our economy can develop in two ways: it can take the low wage commodity trajectory and simplify as we export fewer and fewer items, or we can embrace elaborate transformation and export an increasing diverse set of products. A complex export profile means a high wage and more resilient economy."