

# Eligible Costs for the New to R&D Grant

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## Contents

|   |    |
|---|----|
| 1. Introduction                           | 2  |
| 1.1. Purpose                              | 2  |
| 2. R&D Capability Development Activities  | 3  |
| 3. R&D Definition                         | 6  |
| 4. Eligible R&D Costs                     | 7  |
| 4.1. Internal Labour costs                | 7  |
| 4.2. External Labour Costs                | 9  |
| 4.3. Materials and Consumables Costs      | 9  |
| 4.4. Depreciation & Operating Lease Costs | 10 |
| 5. R&D Exclusions                         | 11 |

## 1. Introduction

Callaghan Innovation manages the New to R&D Grant on behalf of the Government. The New to R&D Grant supports new-to-R&D businesses to establish an R&D programme and provide an on-ramp to the R&D Tax Incentive (RDTI) scheme for ongoing government R&D support.

The grant provides support of up to 40% of a business's R&D expenditure up to a limit of \$400,000 of co-funding. Both R&D Capability Development costs and R&D expenditure are supported at 40%

The New to R&D Grant is designed to:

- > encourage businesses without R&D capabilities and experience to develop R&D capability
- > help businesses build the capabilities to perform R&D over the long term, and
- > help businesses become familiar with and be ready to access the RDTI scheme.

The RDTI scheme is structured in a way that R&D costs are split into Core and Supporting costs. This New to R&D Grant does not differentiate between these two types of costs, however when you move to the RDTI scheme you will need to structure your R&D costs to take account of the differences. We can introduce you to our RDTI Customer Engagement team at that time.

These guidelines are current as at the date listed on the cover page. Callaghan Innovation reserves the right to amend these guidelines from time to time. Changes may occur without notice, but Callaghan Innovation will use reasonable endeavours to communicate changes via the New to R&D Grant page on our website.

### 1.1. Purpose

This document provides information on eligible R&D Capability Development Costs (referred to as Set-Up costs in the Ministerial Direction) and eligible R&D costs.

You must complete R&D Capability Development activities from a minimum of two different categories below, to be undertaken alongside your R&D. All costs will be recorded in the Capability Development tab of the Costs Template (CT) and will be claimed using this template.

All costs are supported by way of 40% co-funding up to the cap of \$400,000. .

## 2. R&D Capability Development Activities

Eligible R&D Capability Development Activities are any activities that increase the R&D capability of the business by either:

- > increasing the R&D-related human capital expertise within the business organisation via training, coaching, or advisory, OR
- > setting up systems, processes or operations that enable R&D to be undertaken more efficiently and effectively.

We have organised these R&D Capability Development Activities into 7 categories of activities and provided summary descriptions, including examples of eligible and ineligible activities. You may undertake as many Capability Development activities as you wish. However at a minimum, you must undertake activities from at least 2 different Capability Development categories.

Note that travel and accommodation costs may be reimbursed up to a cap of \$15,000. This applies to Capability Development activities only. Travel costs for any R&D related activity are subject to Callaghan Innovation's discretion and full rationale must be provided as to why these should be funded as R&D costs

| CAPABILITY DEVELOPMENT ACTIVITY TYPE                | SUMMARY DESCRIPTION  |
|---|--|
| <p><b>Intellectual Property (IP) Capability</b></p> | <ul style="list-style-type: none"> <li>&gt; Intangible assets can make up as much as 80% of the value of a modern business. These assets go beyond the innovations you patent or trademark and include:               <ul style="list-style-type: none"> <li>○ staff expertise and experience</li> <li>○ brand recognition</li> <li>○ unique processes</li> <li>○ proprietary data</li> <li>○ customer relationships</li> <li>○ network relationships.</li> </ul> </li> <li>&gt; Intellectual Property capability Development activities include one-off advisory costs relating to developing an IP strategy that maximises these assets that will give your organisation the ability to generate a better return than your competitors.</li> </ul> |

|  |   |
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|  | <ul style="list-style-type: none"> <li>&gt; Also eligible is the one-off drafting of IP protection clauses that can be reused in future employee, contractor or commercial agreements. Training delivered through the Strategy Phase only of Callaghan Innovation’s BeyondIP program is eligible.</li> <li>&gt; We recommend doing due diligence on providers in this space, including taking into account whether they are registered or recognised by any industry body. For patent related work and advice, under New Zealand law we recommend you contact a registered Trans-Tasman patent attorney (the directory can be found <a href="#">here</a>).</li> <li>&gt; Please note that Callaghan Innovation will only co-fund or fund patent work and patent advice that is provided by a registered patent attorney. This includes advice on the validity of patents and their infringement resulting from Freedom to Operate (FTO)/IP scanning search results.</li> <li>&gt; These activities exclude the ongoing preparation or review of IP clauses in employee, contractor and commercial agreements other commercial, legal or other administrative aspects (including filing costs) of patenting (other than advice on the validity of patents and their infringement), trademarking, licensing or similar activities which are not eligible activities.</li> </ul> |
| <p><b>Regulatory and Compliance Capability</b></p> | <ul style="list-style-type: none"> <li>&gt; These activities could include one-off costs related to meeting local and overseas compliance and regulatory standards for the product and/or R&amp;D facilities; certification of R&amp;D equipment or R&amp;D facilities.</li> <li>&gt; These activities exclude any ongoing equipment or facilities testing for certification after R&amp;D has commenced or any activities involved in complying with statutory requirements or standards for pre-existing processes, services, or goods.</li> </ul>  |
| <p><b>Project Management Capability</b></p>        | <ul style="list-style-type: none"> <li>&gt; R&amp;D project management is an attempt to obtain more efficient utilisation of resources within an organisation with a view to completing projects within the constraints of time, cost and performance. Eligible R&amp;D activities include one-off project management training costs; or specific training in certain project management software.</li> <li>&gt; These activities exclude ongoing project management software subscription costs or project management labour costs while undertaking R&amp;D, both of which are claimable as R&amp;D costs.</li> </ul>   |
| <p><b>Lean R&amp;D Best Practice</b></p>           | <ul style="list-style-type: none"> <li>&gt; Lean is a proven framework for R&amp;D process development. The focus of Lean is on increasing customer value and process flow efficiency (time-to-market) by decreasing waste. To apply Lean thinking in R&amp;D, you first get to know the concept and principles of Lean and then learn to see waste and eliminate it. Eligible activities include one-off training costs on how to use Lean tools, methods, and principles to solve R&amp;D problems, make improvements, and develop the continuous improvement skills of others.</li> </ul>  |

|   |  |
|---|--|
|   | <ul style="list-style-type: none"> <li>&gt; Development capability in Lean, Digital Lean or Lean Startup best practice will also contribute to an efficient and organised R&amp;D capability and culture within the organisation so training in these Lean disciplines are also eligible activities.</li> <li>&gt; These activities exclude the ongoing costs of paying a Lean or Digital Lean consultant to routinely undertake lean practices within the business.</li> </ul>  |
| <p style="text-align: center;"><b>R&amp;D<br/>Information<br/>Management<br/>Capability</b></p>             | <ul style="list-style-type: none"> <li>&gt; These activities include one-off training on how to set up systems and processes in order to collect, organise and store data that feeds into your R&amp;D programme, including understanding best practice in how to record test results and maintain R&amp;D documentation as well as the one-off cost of setting up those systems and processes.</li> <li>&gt; These activities exclude the ongoing quality control and routine testing, routine collection, organisation and storage of information and routine operations on R&amp;D related data.</li> </ul>   |
| <p style="text-align: center;"><b>Customer<br/>Input into R&amp;D</b></p>                                   | <ul style="list-style-type: none"> <li>&gt; These activities include one-off costs of learning how to: <ul style="list-style-type: none"> <li>○ facilitate customer focus groups</li> <li>○ design effective customer surveys</li> <li>○ conduct customer and subject matter expert interviews</li> <li>○ undertake competitor product analysis</li> <li>○ undertake rapid prototyping</li> <li>○ run brainstorming/ideation workshops.</li> </ul> </li> <li>&gt; To be eligible, these activities must be undertaken as part of the R&amp;D program and the output of these activities must inform the R&amp;D priorities and plan.</li> <li>&gt; These activities exclude general sales promotion or marketing activities, non-R&amp;D related consumer surveys, end product market research; market sizing, market testing, or other commercialisation activity.</li> </ul> |
| <p style="text-align: center;"><b>Understanding<br/>the R&amp;D Tax<br/>Incentive<br/>Scheme (RDTI)</b></p> | <ul style="list-style-type: none"> <li>&gt; These activities include training on how to be RDTI ready by the time the New to R&amp;D grant is completed and it is time to transition to the RDTI. It includes training on how to effectively engage with the RDTI scheme including things like tracking and documenting R&amp;D costs for financial reporting purposes; setting up a chart of accounts that includes appropriate R&amp;D line items; training on RDTI R&amp;D eligibility rules and any other systems and processes required to ensure the company is in a position to efficiently participate in the RDTI scheme.</li> <li>&gt; These activities exclude the ongoing time to prepare RDTI claims or accountants fees for preparing accounts in an RDTI compliant way.</li> </ul>  |

### 3. R&D Definition

Because the New to R&D Grant serves as an on-ramp to the R&D Tax Incentive (RDTI) scheme for ongoing government R&D support the eligible Research and Development (R&D) activities for the New to R&D Grant are very closely aligned with the RDTI R&D definition and are defined as R&D activities that:

- > seek to solve scientific or technological uncertainty; and
- > seek to create new knowledge, new or improved processes, services or goods.

Any of the following supporting activities are eligible ONLY if they are required for and integral to undertaking the R&D activities:

- > Making cosmetic or stylistic changes to processes, services, or goods.
- > Reproduction of a commercial product or process by a physical examination of an existing (product or system, or from plans, blueprints, detailed specifications, or publicly available information).
- > Minor adaption of, or improvement to, existing processes, services, or goods.
- > Bug testing, beta testing, system requirement testing, user acceptance testing, and data integrity testing.
- > Data mapping and data migration testing i.e. the process of creating data element mappings between 2 distinct data models
- > Testing or comparing the efficiency of algorithms that are already known to work.
- > Testing security protocols or arrangements to reveal flaws in the security mechanisms of an information system.
- > Converting existing systems to, or integrating existing systems with, new software platforms with the aim of extending the life of, improving or renewing a product or service by establishing it on a new software platform.
- > Research in social sciences, arts, or humanities.
- > Carrying out routine operations on data, including presentation of data.
- > Writing test results, analysis, maintaining R&D documentation.

## 4. Eligible R&D Costs

The New to R&D Grant supports costs that are directly related to R&D.

### ELIGIBLE R&D COSTS

Eligible R&D Costs can include:

- > Internal labour costs
- > External labour costs
- > Materials and consumables
- > Depreciation

All details of cost calculations should be kept as these may be reviewed by Callaghan Innovation.

### 4.1. Internal Labour costs

Internal Labour costs can be claimed for the number of hours spent by employees doing R&D work that contributes to the R&D.

Internal Labour costs are to be entered in the Cost Template spreadsheet under the Internal Labour tab.

When referring to the eligible hourly rate for staff, this comprises the total of:

- > Contracted salary and wage costs
- > Overheads.(calculated at 20% of the hourly rate).

#### 4.1.1. Salary and Wages

The eligible hourly rates approved at the time of contracting apply throughout the life of the contract and cannot be changed. When claiming the hourly salary and wage cost it must be the **actual salary or wage paid to the staff member/director/shareholder with PAYE deduction**. Enter the best estimate of the hours they will work under each objective in the Objective Costing tab.

| EMPLOYEE TYPE                               | SUMMARY DESCRIPTION  |
|---|--|
| <b>Salaried employees</b>                   | > Divide the PAYE yearly contracted salary by 1,752 hours (this is the maximum number of chargeable hours per year, allowing for statutory holidays, annual leave and sick leave). |
| <b>Waged employees</b>                      | > Use the employee's hourly rate. To convert a waged employee's hourly rate into a salary equivalent, you can use the calculator in the R&D Cost Template.                         |
| <b>New employees<br/>(Not yet employed)</b> | > Use the hourly rate budgeted or divide the budgeted annual salary by 1,752 hours. The third party recruitment fees and relocation  |



|  |   |
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|  | costs of hiring new R&D employees are eligible costs. These specific costs need to be entered in the External Labour tab.   |
| <b>Previously Unpaid Owner/Shareholder</b> | <ul style="list-style-type: none"> <li>&gt; Available for shareholders not previously employed in the business to make the transition from 'sweat equity' to receiving a PAYE salary or wage. Shareholders must be on the payroll to claim this cost and can't simply claim the cost of drawings or invoiced payments.</li> <li>&gt; The hourly rate is limited to the lesser of: <ul style="list-style-type: none"> <li>- \$80 per hour plus 20% overheads, or</li> <li>- the actual shareholder salary/wage.</li> </ul> </li> </ul> |

#### 4.1.2. Overheads

Callaghan Innovation applies a fixed overhead rate of 20% on internal labour costs to take into account the following indirect costs or fixed expenses of operating a business.

#### OVERHEADS

Overheads are the:

- > Costs **not** directly related to the manufacture and sale of a product or delivery of a service
  - Examples include;
    - insurance
    - rates
    - utilities
    - office rent
    - office cleaning
    - security costs
    - repairs and maintenance
    - phone
    - accounting fees
    - corporate services such as human resources and administrative services
    - non-R&D recruitment and relocation costs (R&D employee recruitment and relocation costs are eligible R&D Costs)
    - depreciation on existing capital items
    - non-R&D related lease payments (R&D related operating lease payments are eligible R&D Costs)

- Overheads excludes;
  - travel
  - consultants
  - overseas costs.

## 4.2. External Labour Costs

External Labour costs can be claimed for the costs incurred for contractors doing R&D work that contributes to the project. External Labour Costs are to be entered in the Cost Template spreadsheet under the External Labour tab.

| EXTERNAL LABOUR COSTS CALCULATION DETAILS                           |   |
|---|---|
| LABOUR COSTS  | CALCULATIONS  |
| <b>Contractors (any non-PAYE labour who invoice for their time)</b> | <p>Hourly rate contractor:</p> <ul style="list-style-type: none"> <li>&gt; Enter the hourly rate in the External Labour tab</li> <li>&gt; Enter the estimated hours they will work under each objective in the Objective Costing tab.</li> </ul> <p>Fixed price contract with contractor:</p> <ul style="list-style-type: none"> <li>&gt; Enter their 'fixed price'.</li> </ul> |

External Labour are any non-PAYE labour who invoice for their time, including contractors and any other internal team members who are not PAYE employees.

- > If a contractor is a shareholder with a 5% or greater shareholding then the hourly rate they can claim is capped at \$80 per hour plus 20% overhead.
- > If the contractor's cost is 15% or greater of the total R&D cost applied for in the grant there may be a requirement to provide additional information.
- > If the R&D involves the use of overseas labour, there will be a requirement to provide additional information as overseas labour costs are not permitted except with our express consent.

## 4.3. Materials and Consumables Costs

Material and Consumable costs can be claimed for physical components and other inputs (e.g. software licence, web hosting) required to do the R&D.

Material and Consumable details are to be entered in the Cost Template spreadsheet under the Materials and Consumables tab.

## MATERIALS AND CONSUMABLES

Materials and consumable items (or groups of items) are listed with:

- > a clear name stating what each item (or group of items) is. The item name will be able to be selected as a drop down item in the Objective Costing tab.
- > a description or notes for each item
- > a cost.

Where a related business is a supplier any materials and consumables should be charged at cost.

\*Callaghan Innovation may ask for supplier details and quotes.

### 4.4. Depreciation & Operating Lease Costs

Depreciation costs can be claimed for new capital items purchased to undertake the R&D. A new capital item is any item purchased no earlier than 90 days before the date the New to R&D Grant application is approved.

Operating lease costs can be claimed for short-term lease of land, laboratory/factory/office space and equipment specifically required to undertake the R&D

Depreciation of new capital items and operating lease (excluding finance lease) costs are to be entered in the Cost Template spreadsheet under the Depreciation tab.

## DEPRECIATION & OPERATING LEASE COSTS

New capital purchases specific to the R&D are listed with:

- > a clear name stating what the new capital item is (this item name will be able to be selected as an item in the Objective Costing tab)
- > the number of months the capital item is used as part of the R&D undertaken
- > the purchase price of the capital item (you will be required to provide a purchase invoice for the capital item at the time of your first claim)
- > the [IRD straight line depreciation rates](#) for depreciated items

Items obtained under an operating lease specific to the R&D are listed with:

- > a clear name stating what the leased item is
- > the number of months the leased item is used as part of the R&D undertaken
- > the lease cost per month (excl GST)
- > the total lease costs required for the R&D undertaken.

## 5. R&D Exclusions

Eligible R&D costs cannot include the following costs:

### EXCLUSIONS

- > Commercialisation costs:
  - Selling
  - Production/manufacturing
- > Depreciation on existing capital items (captured in overhead rate)
- > Purchase cost of new capital items (covered under depreciation)
- > Finance leasing costs that include capital repayments (captured in overhead rate)
- > Entertainment
- > Travel and accommodation (costs directly related to the R&D or R&D Capability Development Activities may be eligible, talk with your Callaghan Innovation Funding Engagement Specialist)
- > Costs and inputs into commercial pre-production runs
- > Internal software development (software development is eligible ONLY if it is directly related to or required in order to undertake the R&D activities)
- > Prospecting for, exploring for, or drilling for, minerals, petroleum, natural gas, or geothermal energy
- > Routine de-bugging of existing computer software - i.e. the process of fixing errors or faults in software (this cost is eligible ONLY if it is directly related to or required in order to undertake the R&D activities)
- > Supporting or making minor improvements to existing computer software using known methods
- > Routine software and computer maintenance
- > Pre-production activities, including demonstration of commercial viability and tooling up for commercial production
- > Quality control, routine testing, routine collection of information and routine operations on data.
- > Management studies
- > Corporate governance activities, e.g directors' fees
- > Activities relating to organisational design
- > End product market research, market testing, market sizing, market development or general sales promotion, marketing activities or other commercialisation activities, including non-R&D related consumer surveys (one-off costs of learning how to: facilitate customer focus groups; design effective customer surveys; conduct subject matter expert interviews; undertake competitor product analysis; undertake rapid prototyping; and run brainstorming/ ideation workshops. To be eligible, these activities must be undertaken as a part of a feedback/test/adjust loop relating to the R&D program and the output of these activities must inform the R&D priorities and plan).

- > Regular professional services fees, e.g. legal, accounting, etc (one-off capability Development activity costs relating to setting up these systems and processes for R&D purposes may be eligible. Discuss with your Callaghan Innovation Funding Engagement Specialist)
- > Commercial, legal or administrative aspects of patenting, licensing or similar activities (freedom to operate and IP strategy is eligible, however patent filing is not. Discuss with your Callaghan Innovation Funding Engagement Specialist)
- > Activities involved in complying with statutory requirements or standards for pre-existing processes, services, or goods (one-off capability Development activity costs relating to understanding such compliance may be eligible. Discuss with your Callaghan Innovation Funding Engagement Specialist)
- > Training and education (except for R&D capability Development training and education may be eligible. Discuss with your Callaghan Innovation Funding Engagement Specialist. See Section 5, R&D Capability Development Activities)
- > GST input of expenditure
- > expenditure on interest and other financing costs
- > commissioning or decommissioning costs
- > acquisition of land
- > remediating land
- > R&D activities funded by other Government grants