



Submission to:

Ministry of Business, Innovation and Employment

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Fuelling Innovation to Transform our Economy

A discussion paper on a Research and Development Tax Incentive for
New Zealand

New Zealand Forest Owners Association Inc

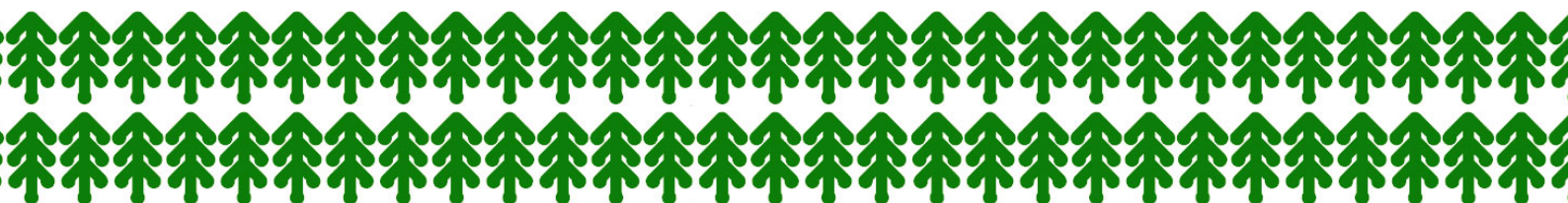
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Introduction

1. The New Zealand Forest Owners Association Incorporated (FOA) is the representative membership body for the commercial plantation forest growing industry. FOA members are responsible for the management of approximately 1.2 million hectares of New Zealand's plantation forests and more than two-thirds of the annual harvest.
2. Investment by the industry in research and technology fosters innovation in the plantation forestry sector. This is reflected in the commitment of the FOA and its members to the highest standards of sustainable silviculture, environmental practice and workforce safety.
3. FOA also provides secretariat services to the Forest Growers Levy Trust, a body established to administer the Harvested Wood Products Levy. The levy applies to commercial timber species and is paid at the time of harvest by all forest owners. In 2018 the Forest Growers Levy Trust is allocating approximately 60% (\$5.5 million) of the levy to research and development programmes that are organised and funded for the benefit of all NZ forest growers. Substantial industry investment (approximately \$1.5 million per annum) into research focussed on phytosanitary options has also been made by the forest growers via a voluntary levy on log fumigant products.
4. FOA is submitting on behalf of our national membership and on behalf of those forest owners who pay the Harvested Wood Products Levy.

Comments on the Research and Development Tax Incentive Proposal

5. The FOA are supportive in principle of the proposed tax incentive for research and development as a way of encouraging greater investment in research and development in New Zealand.
6. Forest owners have a long history of investing directly in research and development alongside government investment and the commercial forest industry New Zealand has today is built on this research effort dating back over many decades.
7. Because of the long-term nature of forest research and the common issues and challenges faced by forest owners, the majority of forest growing sector research is undertaken cooperatively. One of the main reasons for forest growers introducing a levy in 2013 was to improve the funding of research and development, to spread the load across all forest growers and to provide greater funding stability for research and other industry good activities. A collaborative approach also enables the sector to leverage limited expertise across the wider sector for the benefit of all forest owners rather than just a few. The industry does this willingly.

8. Industry research funded by the Forest Growers Levy Trust is almost entirely contracted to universities and crown research institutes and meets the criteria of R&D activity as defined in the discussion paper. The discussion paper also identifies “industry cooperatives (including levy bodies) that receive contributions or levy payments for the purpose of R&D will be eligible for the Tax Incentive”
9. However, these industry cooperatives and levy bodies are generally structured as not for profit organisations because they are set up to facilitate the funding, organisation and dissemination of research outputs for the benefit of the wider industry. Because the proposed tax incentive will provide a tax credit, these bodies will not be able to access the tax credit as it is currently proposed.
10. Our concern is that this will put at risk the model for collective or collaborative research that is common across the primary sector and was one of the significant reasons why the forest growing sector implemented the Harvested Wood Products Levy in 2013. The risk is that those wishing to avail themselves of the tax relief will channel funds away from collaborative research through the levy system and into private consortia.
11. A suggested solution is that industry bodies collecting sector funding that is applied to eligible research provide evidence of the research undertaken and the proportion of total funding received that is applied to research. This would be provided to those paying the levy or grant so that they are then able to claim the tax incentive through their own business activity. Or alternatively, and possibly more practically, that the levy body is provided the equivalent level of support that would have been claimed if it was undertaken through an alternate mechanism

Our Submission

12. The FOA, on behalf its members and those forest owners paying the Harvested Wood Products levy , seeks the inclusion of a mechanism whereby those paying levies or grants to not for profit collaborative or cooperative industry bodies are able to claim that portion of the grant or levy utilised for eligible research activity as a tax credit.

Note on making this submission public

13. The FOA is happy for this submission to be made public.



David Rhodes
Chief Executive