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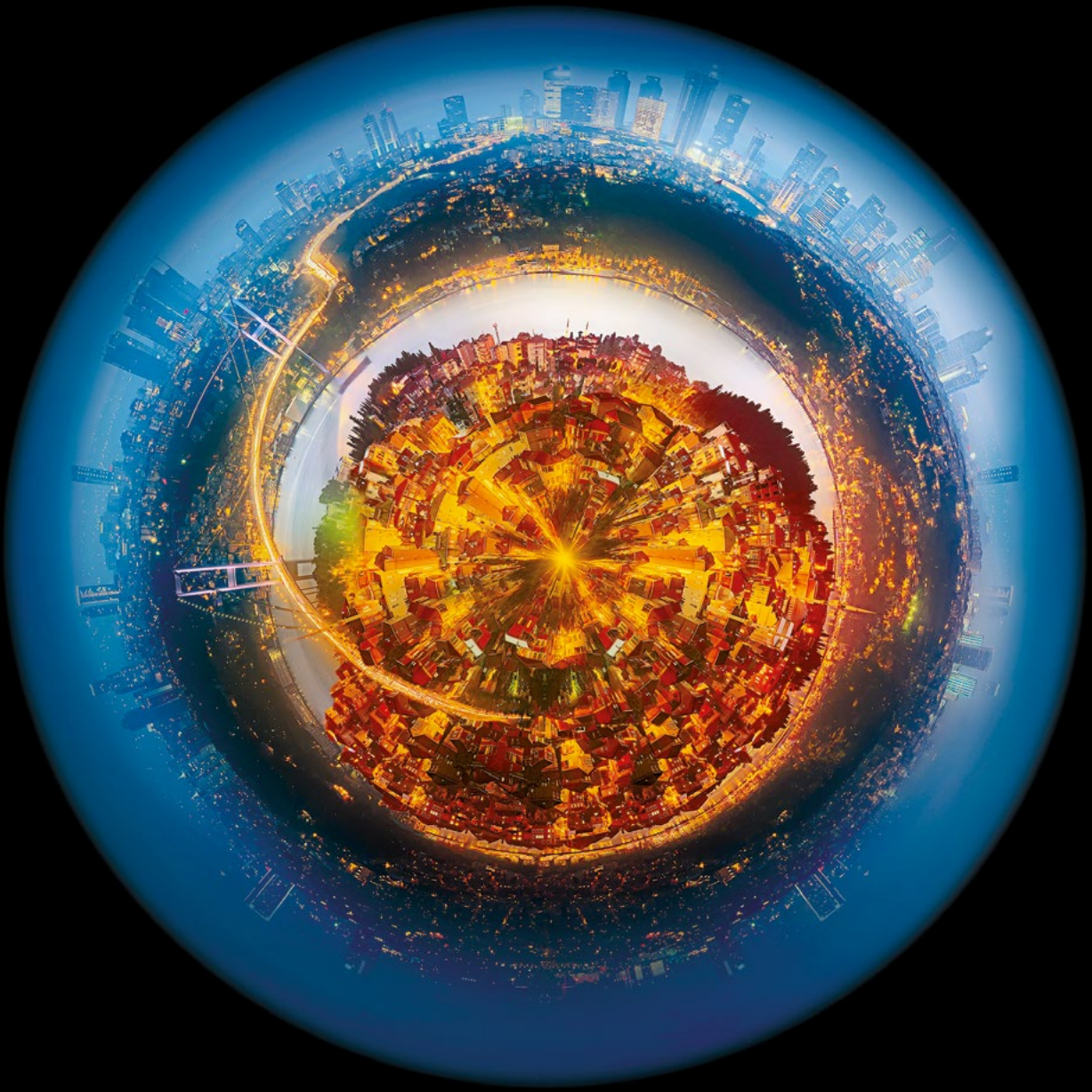

Survey of Global Investment and Innovation Incentives

December 2017

Contents

This Survey covers the following countries and the noted incentives.*

* This Survey covers certain popular incentives that have broad appeal, but is not intended to comprehensively cover all incentives offered by the respective countries.

Preface

In most countries and industry sectors, an elaborate system of financial incentives is available to fuel research, innovation, capital expansion, energy sustainability, employment, and training. These incentives are available for both domestic investments and growth opportunities abroad, as well as at various government levels (e.g., federal, regional, and local). Moreover, the incentive regimes are constantly changing to align with the shifting political and social landscapes. Some governments are making their incentives more generous to foster growth, whereas others are targeting their incentives to specific sectors to address narrow policy goals. The effectiveness of government incentives is always being evaluated, thus resulting in constant change, sun-setting laws, transition rules, and complex enforcement policies.

Identifying, understanding, and prioritizing the right incentives for your organization can be a time-consuming and challenging undertaking, but it is also one that can generate significant benefits. The December 2017 Global Survey of Innovation and Investment Incentives is intended to help companies understand the global dynamics that impact the funding of innovation and investment strategy, regardless of whether they are contemplating new or expanded investments in R&D.

This Global Survey covers 41 countries that are often hubs or under consideration for business expansion. For each country, the survey provides a chart summarizing key incentives for R&D, capital expansion, employment, training, environmental sustainability, and regional development. The content following the chart guides overviews each incentive covered in the chart. Since most government incentives are multi-faceted and complex, the survey includes a list of Deloitte's subject matter experts for each country who are available to explore these incentives in greater detail.

For certain countries, the Global Survey includes an overview of the landscape for significant government incentives. We typically address the most recent political and social trends that may influence the future of longstanding, as well as emerging, government incentives.

In addition to national grants funded by the governments of EU member states, the EU provides funding for R&D and other policy initiatives implemented to achieve the Europe 2020 Growth Strategy. In light of the importance of this funding source, we have included a review of the EU funding instruments for 2014–2020 (see the Appendix, including the write-up for EU Funding for 2014–2020).

R&D tax incentives vary significantly, but certain regimes are particularly generous or have unique characteristics. The Global Survey includes charts that identify regimes with the following characteristics:

- Refundable research tax credits;
- Location of IP may impact research initiatives;
- Qualifying research must be performed within the country;
- Countries that allow some research to be performed outside the country;
- Countries that permit qualifying research activities to be performed outside the country without any restriction;
- Qualifying contract research allowed;
- Patent box;
- Countries offering research grants only; and
- Countries offering a super deduction.

The content in this Global Survey is current as of December 2017.

Deloitte's Global Investment & Innovation Incentives (G*i*³) Service Line

The Deloitte network gives you access to Global Investment & Innovation Incentives (G*i*³) practitioners who are ready to provide support around the world. Our world-class capabilities help you pursue the right incentives by developing and executing an effective incentives strategy for your needs.

Deloitte G*i*³ understands the global dynamics that affect the funding of your innovation and investment strategy. We enable you to see the broader playing field by identifying incentive opportunities available to your company. Moreover, G*i*³ offers:

- **Technology at the center**—Leverage technology for operational efficiency and for a clear vision of relevant opportunities.
- **Industry experience**—G*i*³ practitioners globally know and understand your industry, your business language, and your technology language.
- **Lifecycle view**—Each incentive must be considered in the context of the investment and innovation lifecycle to realize the full financial and commercial benefit.
- **Leveraging the ecosystem**—Innovation does not happen in a vacuum. Connecting with the relevant government bodies and research institutes will propel your innovation capability. The power of our network helps you build winning relationships.
- **Thought leadership**—Governments across the globe seek the insights of Deloitte professionals to help in the development and design of their own incentive policies.
- **Deloitte network**—Deloitte's broad range of specialized services are available to help you consider the impact of incentives on your wider tax, financial, and commercial activities so you can further enhance and accelerate your business opportunities.

The G*i*³ Service Line publishes a monthly newsletter providing a Global Investment & Innovation Incentives update. This publication provides a summary and updates on the latest global developments in R&D credits, grants, and other incentive arrangements. More than 50 countries offer specific incentives, and this newsletter focuses on identifying and outlining what could be the right incentives for your organization. Click on the following link to subscribe to this complimentary newsletter: https://subscriptions.deloitte.com/app/index.html#/optin?aoi=a0930000003Eafw&sub=a0C1400001Q3nh7.

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Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Red	Red	Grey	N/A	N/A	N/A	N/A
R&D grant (national)	Red	Red	Grey	N/A	N/A	N/A	N/A
R&D grant (EU)	Red	Red	Grey	N/A	N/A	N/A	N/A
Patent box	Red	Red	Grey	N/A	N/A	N/A	N/A
Investment							
Private investment law (Tax reduction)	Green	Green	Red	Advance	Exemption from, or reduction in, Industrial Tax, Property Transfer Tax, and Investment Income Tax	10%–100% reduction in the rate of the Industrial Tax, Property Transfer Tax, and Investment Income Tax for periods ranging from four to 10 years	10%–100% reduction in the rate of the Industrial Tax, Property Transfer Tax, and Investment Income Tax for periods ranging from four to 10 years
Private investment law (Customs incentives)	Green	Green	Red	Advance	Exemption from, or reduction in, customs tariffs levied on import of goods and equipment for the investment project	Exemption from, or reduction in, customs duties	Exemption from or reduction in, customs duties
Special regime: Qualified investments	Green	Red	Red	Advance	Deduction and accelerated depreciation	Deduction of up to 50% of the costs of qualified investments from the tax base and favorable accelerated depreciation	Deduction of up to 50% of the costs of qualified investments from the tax base and favorable accelerated depreciation

Key: Green =Yes Yellow =Limited availability Red =No Grey =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

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Overview

Angola is the seventh largest country in Africa in terms of geographical area, with a total area of 1,246,700 km^2 and is divided into 18 provinces. The country currently has a population of 28.8M, about 27% of whom are concentrated in Luanda, the political and economic capital.

Angola subscribes to all the major international treaties that ensure an active human rights position and respect for international laws and conventions. It is a full member of the main African institutions, notably, the African Union and the Southern African Development Community.

It is estimated that in 2017 the oil sector will account for 30% of the GDP, 95% of total exports and 50% of public revenues. Angola is the second largest African oil producer and the 14th largest in the world. The second export product is diamonds, which together with oil, are estimated to account for 98% of exports in 2016, corresponding to 33.34% of Angola's GDP.

Angola has made significant strides with its process of political, administrative, economic, and social reconstruction, creating an emerging country status on the world stage.

Foreign direct investment is playing an increasingly important role. According to the World Investment Report published by the UN Conference on Trade and Development, Angola has been in the top positions in the world ranking as a recipient country of foreign direct investment.

Angola has experienced a period of political stability since 2002. Elections in August 2017 brought President João Gonçalves Lourenço into office. He took over from José Eduardo dos Santos, who had been in office since 1979. The direction of policy is expected to remain broadly unchanged.

With the political stability and security promoted by the government, Angola now is a country that has made great progress in formulating and implementing structural reforms of its economy, raising it to the status of an emerging economy in Southern Africa.

However, lower international oil prices are having a deleterious effect on the economy, with inflation rising, the kwanza declining sharply, and the fiscal and current-account balances under pressure. Angolan growth is expected to average just 2.3% in 2017 and the risk of unrest is rising.

Despite this outlook, private investment is a strong catalyst for the sustainable development of Angola. According to government officials, the economy has attracted USD 9B in private investment over the past year.

Angola

Angola offers a host of incentives to encourage investment in projects that are likely to generate economic growth and foster the social and cultural well-being of the population

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Government incentives

The corporate tax rate is 30% for resident corporations and Angolan permanent establishments (PEs) of nonresident companies. A reduced corporate tax rate of 15% applies to agriculture and forestry. Income from oil is taxed at 50% or 65.75%.

Investment

Private Investment Law

Nature of incentives

The private investment regime, created by the Private Investment Law (PIL), applies to foreign investment of any amount and domestic investments amounting to AOA 50M or more. The PIL requires that all foreign investors—even investors that do not intend to utilize tax incentives or do not qualify for tax incentives—must be registered under the Regulation of the Procedure for Private Investment under the PIL and are covered by the general rules applicable to trade and business, as well as the foreign exchange laws. Companies registered through the PIL are granted the right to remit dividends and profits, liquidation proceeds, etc., whereas companies that fail to register will have limited benefits and rights.

Regardless of the type of investment, all investments subject to the jurisdiction of the Angolan government must:

- Create jobs for Angolan citizens and provide salaries and social conditions compatible with their qualifications;
- Implement training plans to develop the skills of the Angolan workforce; and
- Hire qualified foreign workers, but promote the gradual replacement of these employees with Angolan workers.

Tax and customs benefits may be granted under the PIL to companies that invest in projects that advance the economic and social policies of the Angolan government, such as:

- Generating economic growth;
- Promoting the economic, social, and cultural well-being of the population;
- Promoting less developed regions, especially in the interior of the country;
- Increasing the country's industrial capacity or raising the value added;
- Creating partnerships between national and foreign individuals and organizations;
- Fostering the creation of new jobs for Angolan workers and increasing their qualifications and skills;
- Promoting the transfer of technology and increasing efficiency;
- Increasing exports and reducing imports;
- Increasing foreign currency reserves and improving the balance of payments;
- Increasing the supply channels to the domestic market;
- Promoting technological development, corporate efficiency, and product quality; and
- Rehabilitating, expanding, or modernizing infrastructure intended for economic activities.

The following incentives may be granted to qualified domestic investments exceeding USD 500K or foreign investment exceeding USD 1M:

- **Tax benefits:** 10%–100% reduction in the rates of the Industrial Tax, Property Transfer Tax, and Investment Income Tax for periods ranging from four to 10 years. The rate reduction is awarded based on a scoring system specified in the PIL to determine the relative value of the private investment to Angola (see below for a description of the criteria considered in scoring investments).

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Government incentives (continued)

- **Customs duties:** The government ministry that administers the program can award an exemption from/reduction in customs duties levied on the import of goods and equipment for the investment project according to the terms in the Customs Tariffs of Import and Export Duties Law.
- **Additional benefits:** Investments of USD 50M or more that create at least 500 jobs in Development Zone A or 200 jobs in Development Zone B for Angolan citizens can be negotiated with the government and granted additional benefits.

These incentives are available for up to 10 years or until the tax savings equal the amount of the investment.

Eligible industries and qualifying costs
As mentioned above, tax benefits and incentives are granted on a case-by-case basis by reference to a scoring system that prioritizes the most worthy investments. The score determines the likelihood of awarding incentive benefits and is determined by reference to the following criteria:

- Number of jobs created for Angolan workers;
- Amount of the investment;
- Location of the investment;
- Activity in the agriculture, livestock, forestry, fishery, and related agro-industry sectors;
- Production for export;
- Shareholding by Angolans; and
- National value added.

Industries
Eligibility is broad and is not limited to particular industries. There is, however, specific legislation that provides a targeted incentive regime for investment in the oil and gas and mining sectors, financial institutions, and investments by state-controlled legal persons.

Partnership rules
Foreign investment in certain industries in Angola[1] requires the establishment of partnerships with Angolan citizens, state-owned companies, or Angolan companies that hold at least 35% of the stock/capital of the company sponsoring the investment and have the right to participate effectively in management of the company (as reflected in the shareholders' agreement). This level of investment and control must be maintained throughout the term of the project, except in cases authorized by the competent authority due to compelling public interest.

Eligible expenditure includes all costs incurred by the investor(s) and/or promoter(s) that are directly related to the implementation of the private investment project.

IP and jurisdictional restrictions
There are no specific location restrictions on IP to benefit from the incentives described above.

Special regime: Tax benefits for qualified investments
In addition to the negotiated incentives offered under the PIL, Angolan entities subject to the Industrial Tax or investment projects exceeding USD 500K carried out by Angolan entities may be awarded the following tax benefits:

- Deduction of up to 50% of the costs of qualified investments from the tax base; and
- Accelerated depreciation for the investment (varies depending on the private investment regime).

These benefits are granted by the Ministry of Finance. However, they are not available if the taxpayer has tax losses, and the benefits are limited to a three-year non-extendable period.

1. These industries include the electricity and water sectors, hospitality management and tourism, transport and logistics, civil construction, telecommunications and information technology and media.

Australia

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Nonrefundable tax credit for large enterprises and a refundable credit for SMEs	8.5% of qualified research expenses[4]	16% of qualified research expenses[4]
R&D grant (national)	Yes	No	Yes	Advance	Grant funding with applicant co-contributions required	AUD 3M	AUD 3M
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Cooperative Research Centre Projects CRC-Ps	Yes	No	Yes	Advance	Grant funding with applicant co-contributions required	AUD 3M	AUD 3M
Investment							
CAPEX—Northern Australia Infrastructure Facility (NAIF)	Yes	No	No	Advance	Concessional loans	There is no specified maximum assistance, but the NAIF's preferred minimum investment size for an individual project is AUD 50M or more	There is no specified maximum assistance, but the NAIF's preferred minimum investment size for an individual project is AUD 50M or more
CAPEX—Building Better Regions Fund (BBRF)	Yes	No	Yes	Advance	Grant funding with co-contributions by the applicant is required	AUD 10M	AUD 10M

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. Since expenditure claimed for the credit cannot be deducted, the net benefit is shown as the difference between the tax credit rates and the tax deduction at corporate income tax rates.'

Australia

Overview (continued)

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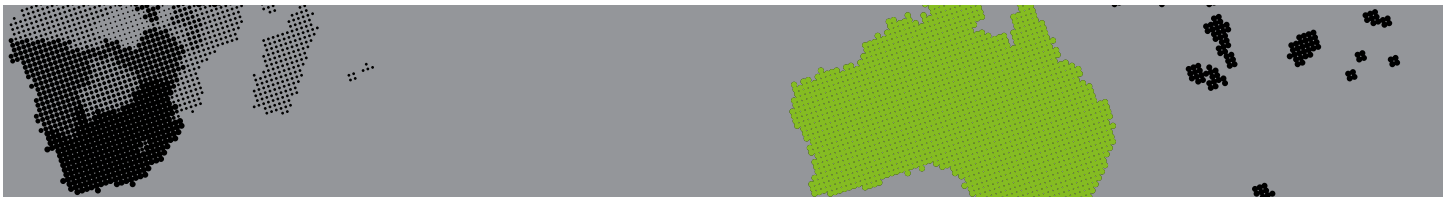
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Environmental sustainability							
Australian Renewable Energy Agency (ARENA)	Yes	No	No	Advance	Grant funding with co-contributions by the applicant is required	This will be dependent on the types of ARENA programs	This will be dependent on the types of ARENA programs
Emissions Reduction Fund (ERF)	Yes	No	Yes	Arrears	Australian Carbon Credit Unit (ACCUs)	There is no specified maximum assistance. Participants can earn ACCUs for every ton of carbon dioxide (CO_2e) they store or avoid emitting	There is no specified maximum assistance. Participants can earn ACCUs for every ton of carbon dioxide (CO_2e) they store or avoid emitting
Clean Energy Finance Corporation (CEFC)	Yes	No	No	Advance	Debt and/or equity financing	There is no specified maximum assistance, but the CEFC is capped at AUD 2B annually and the preferred minimum investment for a renewable technology project is AUD 20M	There is no specified maximum assistance, but the CEFC is capped at AUD 2B annually and the preferred minimum investment for a renewable technology project is AUD 20M
Other							
Discretionary funding from states and territories	No	Yes	Yes	Advance	Grant funding with co-contributions by the applicant is required	Varies—depends on the state/territory	Varies—depends on the state/territory

Key: Yes =Limited availability No =N/A



Australia

Australia offers volume-based tax credits with net benefits ranging from 8.5% to 16%, depending on the size of the taxpayer

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R&D tax incentives

Background

The standard corporate income tax rate currently is 30%, with a reduced rate of 27.5% applying to certain small companies. Legislation has been proposed to progressively reduce the corporate tax rate for all companies over the next 10 years; this proposal will be debated in parliament.

Nature of incentives

Australia's corporate income tax regime includes the following R&D tax incentives:

There is a national R&D tax incentive that allows eligible companies to claim a tax credit (offset) on eligible R&D activities, instead of a tax deduction. For qualifying expenditure incurred after 30 June 2016:

- The nonrefundable R&D tax credit is equal to 38.5% of eligible expenditure for companies with aggregate gross receipts that are equal to or greater than AUD 20M.
- The refundable volume-based tax credit of 43.5% of eligible R&D expenditure is available for small and medium-sized enterprises (SMEs) with gross receipts of less than AUD 20M that are not controlled (>50%) by exempt entities.

Receipts of connected and affiliated entities are taken into account in determining the gross receipt threshold. SMEs that claim the tax credit cannot also deduct the qualifying expenditure included in calculating the tax credit.

For qualifying expenditure incurred on or before 30 June 2016, the tax credit rates were 45% for SMEs and 40% for large enterprises.

Additionally, effective 1 July 2014 through 1 July 2024, the R&D tax incentive is claimable only at the above rates on eligible expenditure amounts up to AUD 100M. R&D expenditure in excess of that amount is claimable, but only at the relevant corporate income tax rate. Therefore, the net tax benefit currently can range from 8.5% to 16% depending on the size of the taxpayer.

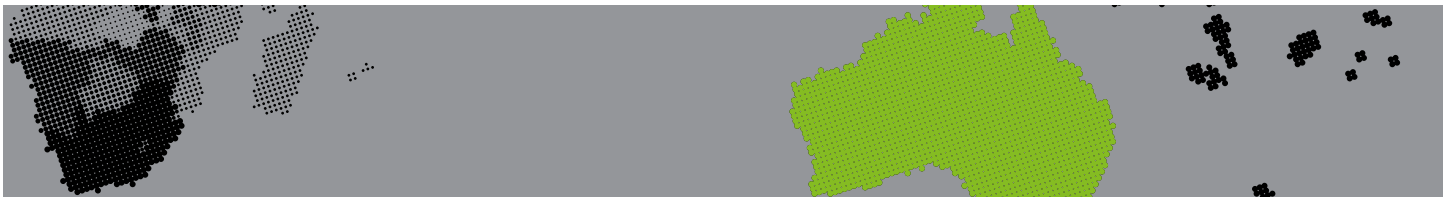
Excess nonrefundable R&D tax credits may be carried forward indefinitely, but may not be carried back. The ability to use carried forward R&D tax credits is subject to ownership or same business continuity tests and the amount carried forward may be reduced by certain amounts of non-taxable income.

A review of the program was undertaken during 2016, and government decisions on the recommendations still are outstanding. Future actions by the government may result in a cap on the amount of refunds available.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Entities that are resident in Australia for tax purposes due to incorporation, central management and control, or under the residence tiebreaker article of a tax treaty, can be considered eligible R&D entities. A foreign resident entity with an Australian permanent establishment (PE) based on an applicable tax treaty also can be an eligible R&D entity.

Qualifying expenditure may include staff costs, direct costs, overhead, supplies, tax depreciation, and certain capital expenditure on activities that are defined as core or supporting R&D activities. Interest payments, core technology, and building costs are specifically



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R&D tax incentives (continued)

excluded. Fees paid to contractors to conduct research on the taxpayer's behalf are qualified research expenses provided the work performed by the contractor is directly related to the R&D activities.

Additional tax is payable if both research credits are claimed and a government grant is received to fund the same research. The additional tax is payable in the year entitlement to the grant arises; if the grant is received before the R&D is claimed, an amendment will be required to the prior years. The additional tax is limited to 10% of the expenditure, and as such, it may be beneficial for taxpayers at higher rates to claim both the research credits and the government grants.

Additional income is subject to tax if the R&D results in the output of commercially viable products or goods. This may occur if a new manufacturing process is developed through R&D and needs to be tested at a full commercial scale. If the output from the tests is scrapped, the credit will be available for the full cost of the materials (e.g., feedstock) and other operating expenses incurred to conduct the trial run. However, if the output is sold or applied to further use by the taxpayer, special rules apply to reduce the net benefit of the research credit.

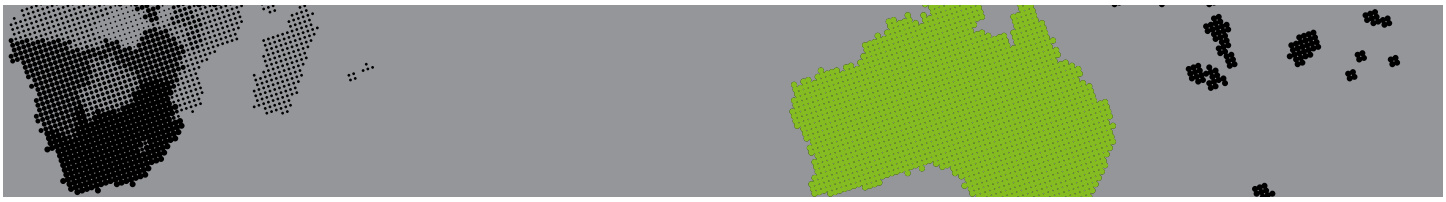
Core R&D activities generally are experimental activities whose outcome cannot be known or determined in advance based on current knowledge, information, and experience that are conducted for the purpose of generating new knowledge. Certain activities are specifically excluded from the scope of core activities, including certain exploration activities and software development for the dominant purpose of internal business administration.

Supporting R&D activities are activities that are directly related to core R&D activities. However, if an activity is on the core exclusion list or produces goods or services, it must be undertaken for the dominant purpose of supporting the core R&D activities to be eligible.

IP and jurisdictional restrictions

IP rights relating to eligible R&D activity generally do not need to be retained in Australia.

Related overseas companies can fund an Australian-based R&D activity. For tax years commencing on or after 1 July 2011, up to 50% of the total project costs of R&D activities can be physically performed outside Australia and remain eligible for benefits if the government has approved an advance overseas finding.



Australia

Australia offers significant CAPEX and environmental sustainability incentives

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Government incentives

Innovation

R&D grant (national)

A significant federal, state and local government grant and incentives program operates in Australia. Assistance includes direct cash grants, concessional loans, and land rate holidays. Support is focused across a range of industry sectors, and there is a strong focus currently on:

- Regional development;
- Infrastructure; and
- New capital expenditure and greenfield investments.

Cooperative Research Centre Projects (CRC-Ps)

The CRC-P program provides funding to support short-term, industry-led collaborative research with a maximum of up to AUD 3M available for each project. The research project must demonstrate the ability to resolve industry problems and deliver tangible outcomes. A co-contribution by the applicant is required.

Investment

CAPEX—Northern Australia Infrastructure Facility (NAIF)

The NAIF is a five-year, AUD 5B commonwealth government concessional finance program to support investment in infrastructure that develops Northern Australia. Typical projects identified by the government for support include airports, communications, energy, ports, rail, and water. There is no specified maximum assistance, but the NAIF's preferred minimum investment size for an individual project is AUD 50M or more.

CAPEX—Building Better Regions Fund (BBRF)

The BBRF provides funding of up to AUD 10M towards capacity-building projects in regional Australia to address comparative disadvantage, as well as creating jobs and providing widespread regional benefits. The BBRF and its predecessor programs have been a consistent feature of successive commonwealth governments and is expected to continue for the foreseeable future. A co-contribution by the applicant is required.

Environmental sustainability

Australian Renewable Energy Agency (ARENA)

ARENA has available approximately AUD 2B in funding through 2022 for activities that "advance renewable energy technologies towards commercial readiness, improve business models or reduce overall industry costs." ARENA funding is applied to projects at all pre-commercialization stages from R&D to demonstration to deployment. A co-contribution by the applicant is required.

Emissions Reduction Fund (ERF)

The AUD 2.55B ERF provides financial incentives for business investments that reduce greenhouse gas emissions and improve energy efficiency. ERF participants earn Australian carbon credit units for their carbon abatement projects, which then can be sold for value. There is no specified maximum assistance.

Clean Energy Finance Corporation (CEFC)

The AUD 10B CEFC fund dedicated to accelerating Australia's transformation towards a more competitive economy in a carbon-constrained world. The CEFC aims to invest in the commercialization and deployment of renewable energy and enabling technologies, energy efficiency, and low-emissions technologies. There is no specified maximum assistance, but the CEFC is capped at AUD 2B annually and the preferred minimum investment size for a renewable technology project is AUD 20M.

Other

Discretionary funding from States and Territories

Depending on the location and scale of the project, a package of assistance often can be drawn from two or three levels of government. The six state and two territory governments also provide discretionary funding to incentivize private sector investment in identified priority areas in their regions. This is typically based on expenditure around:

- Job creation or consolidation;
- Capital expenditure;
- R&D and innovation;
- Market and economic impacts;
- Positive effects on areas of disadvantage;
- Renewable energy;
- Access to export markets;
- Increased efficiency of supply chains; and
- Early stage commercialization.

Austria

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Refundable tax credit	14% of qualified research expenses as from 1 January 2018 (increased from 12%)	14% of qualified research expenses as from 1 January 2018 (increased from 12%)
R&D grant (national)	Yes	Yes	Yes	Advance	Cash grant, low interest loans, or bank guarantees	50% of total eligible project costs are eligible for a combination of grants, loans, and bank guarantees	70% of total eligible project costs are eligible for a combination of grants, loans, and guarantee takeovers
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	70% for innovation actions, 100% for research and innovation actions	70% for innovation actions, 100% for research and innovation actions
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Incentive for incoming researchers	Yes	No	Yes	Arrears	Tax allowance against the individual tax base for researchers taking up residence in Austria	30% of the individual's income tax base in connection with scientific activities for a period of 5 years	30% of the individual's income tax base in connection with scientific activities for a period of 5 years
Spin-off Austria initiative	Yes	No	Yes	Advance	Varies	Varies	Varies

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
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Austria

Overview (continued)

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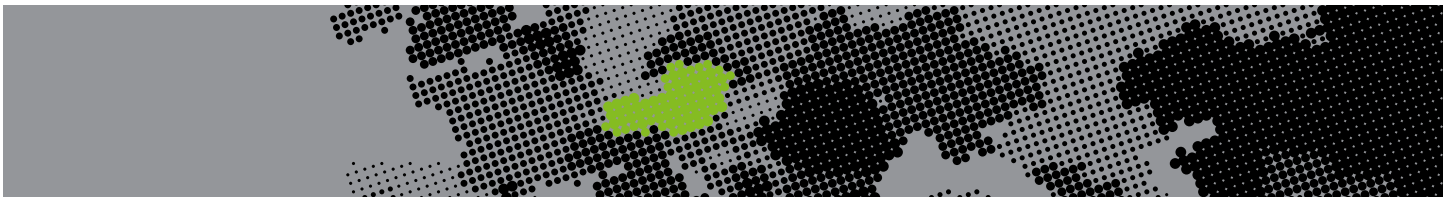
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX	Yes	Yes	Yes	Advance	Cash grant, low interest loans, or guarantee takeovers	10%–20% of project costs	20%–30% of project costs
Employment	Yes	Yes	Yes	Advance	Cash grant	Varies	Varies
Training	Yes	Yes	Yes	Advance	Cash grant	Varies	Varies
Investment growth grant	Yes	No	Yes	Advance	Cash grant for the purchase of depreciable fixed assets of SMEs	N/A	10%–15% of purchased assets
Other							
Broadband infrastructure grant—Access	Yes	Yes	Yes	Advance	Cash grants for the improvement of broadband availability through expansion of geographic coverage and speed increase	Depends on the call	Depends on the call
Broadband infrastructure grant—Backhaul	Yes	Yes	Yes	Advance	Cash grants for upgrade of backhaul connections	Depends on the call	Depends on the call
Broadband infrastructure grant—Empty piping	Yes	Yes	Yes	Advance	Cash grants for the laying of ducts in the expansion of broadband availability	Depends on the call	Depends on the call

Key: =Yes =Limited availability =No =N/A



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Overview

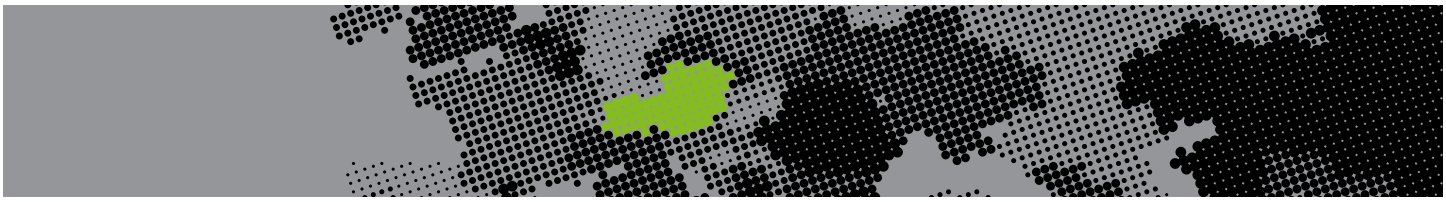
Austria offers a diversified funding landscape for Austrian-based companies engaged in R&D for both tax and direct grants and subsidies. The funding system also enables leading Austrian companies and multinational companies to benefit from incentives that are tailored to their specific requirements.

As from 1 January 2018, 14% of qualifying R&D costs can be a refundable tax credit. This enhancement has been introduced because of the positive impact the credit has had on R&D activities in the country based on an evaluation in March 2017. The increased credit enables companies that carry out R&D work in Austria to accelerate their R&D activities. The R&D tax credit is 12% for qualifying R&D costs incurred between 1 January 2016 and 31 December 2017. If the fiscal year starts before 31 December 2017, and ends in 2018, the credit for the months in 2017 are calculated at a rate of 12%, and for the months in 2018 at 14%.

The government recently introduced an additional multiannual framework program for R&D projects providing funding of more than EUR 700M for R&D activities up to 2021, and has announced that the program should leverage EUR 500M from the private sector. The resources are primarily for R&D projects in the field of quantum computing, digitization, and the development of next generation communications.

To strengthen start-up activities, the government has adopted a package of measures that will provide an additional EUR 185M over three years, including the funding of incidental wage costs. Current grant programs, such as business angel funds, AWS[1] guarantees, and seed financing also are available, including the funding of university spinoffs and incentives for private investors.

1. Austria Wirtschaftsservice (AWS) is a promotion and funding agency.



Austria

Starting in 2018, the amount of qualifying R&D costs that can be refunded is increased to 14%

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R&D tax incentives

Background

The corporate tax rate in Austria currently is 25%.

Nature of incentives

Austria offers a 14% (increased from 12%) volume-based tax credit for all qualified R&D expenditure as from 1 January 2017. The credit is refundable to the extent it exceeds the amount of the company's tax liabilities. As a result, the credit can provide the equivalent of a cash grant for companies in a tax loss or low profit position.

Eligible industries and qualifying costs

The R&D tax credit can be claimed by any company that carries out research activities in Austria, regardless of the company's size, industry, or legal form.

The definition of research includes basic and applied research, as well as experimental development within the meaning of the OECD Frascati Manual. In general, qualifying R&D activities aim to fundamentally improve materials, devices, products, or processes and must be conducted systematically for the purpose of increasing knowledge. The R&D tax credit also is available if the R&D project is unsuccessful or is terminated before reaching a successful conclusion.

Companies may claim the incentive for their expenditure on the following cost categories:

- Staff costs for employees who are directly and actively engaged in carrying out R&D;
- Investment and material costs related to R&D;
- Finance costs that are directly attributable to an R&D project;
- Overhead, such as building rent, electricity, telecommunications, and administrative expenses; and
- Subcontractor fees (subject to some limitations discussed below).

"Implicit costs" (such as opportunity costs), distribution costs, and nondeductible expenses for corporate income tax purposes do not qualify.

If subcontracted R&D is performed, the principal (i.e., the party funding the research), rather than the subcontractor, may opt to claim the qualifying expenses for the purposes of the R&D tax credit. The subcontractor must be a qualifying EU/EEA institution and be unrelated to the principal. The subcontractor fees that otherwise qualify for the research credit cannot exceed EUR 1M annually.

Grants and subsidies received by the taxpayer, which are exempt from Austrian corporate income tax, reduce the cost basis for the R&D tax credit.

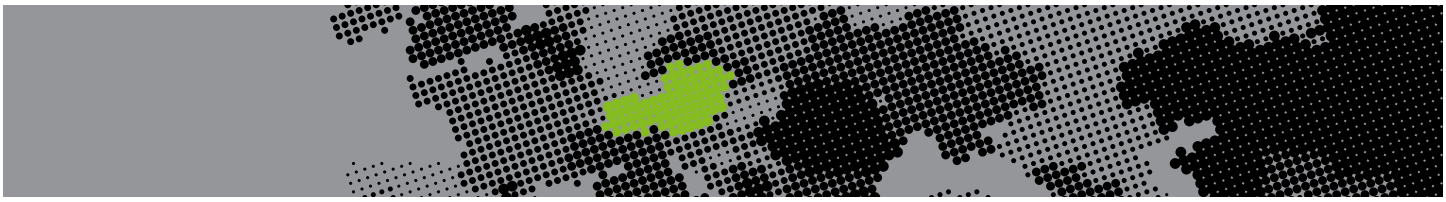
IP and jurisdictional restrictions

There is no IP ownership requirement under the R&D tax credit scheme. Patent protection of the R&D activity's results or proof of success of the R&D work is not required, and no restrictions are imposed on the location of the IP.

Other concerns

Unlike many cash grants, it is not necessary to apply for the credit before the project commences.

An application for an expert opinion issued by the Research Promotion Agency (FFG), which assesses the technical eligibility of the R&D activities, is required for in-house R&D work. The application must be submitted electronically for the previous financial year at the end of each fiscal year. Although the taxpayer must apply for the expert opinion, an opinion need not be obtained before claiming the credit in the annual tax return. Alternatively, a taxpayer can request pre-approval for future R&D endeavors, covering the current year and up to three future fiscal years. In this case, a fee of EUR 1K applies.



Austria

Austria offers comprehensive package of incentives to enhance the economy and labor market

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Government incentives

Innovation

R&D grant (national)

Austria offers a diverse funding landscape for start-ups, SMEs, and large companies. There are grants with application deadlines and grants on an ongoing submission and decision basis. The funding level will depend on the nature of the project. Cash grants, low-interest loans, guarantees, and subsidies for companies are available at the federal, regional, and municipal levels. The maximum assistance depends, among other factors, on the company's size. Funding in the form of R&D grants and subsidies does not preclude an application for an R&D tax credit even for the same R&D project. However, as noted above, grants and subsidies received by the taxpayer, which are exempt from corporate income tax, reduce the assessment base for the R&D tax credit.

R&D grant (EU)

There are extensive opportunities to apply for EU grants. Some permit a company to apply directly, while many require collaboration between three or more partners from three or more EU member states. EU schemes may offer a high level of assistance funding; however, the application process is more complex than for national R&D grants. The reimbursement rate is 100% of R&D and investment expenditures for research and innovation actions and 70% for innovation actions (100% for non-profit entities). Indirect costs are covered by a 25% flat rate. For Austrian-based companies and permanent establishments of nonresident companies, the Research Promotion Agency (FFG) as the national contact point, offers free application training and partner search services in connection with EU R&D grant applications.

Incentive for incoming researchers

Individuals who move to, and become residents of, Austria to promote science or research within the public interest may claim a special tax allowance. The tax exemption is equal to 30% of the individual's income tax base in connection with scientific activities performed for a period of five years. The application for the allowance must be filed within six months after becoming a resident.

Spin-off Austria initiative

The initiative, "Spin-off Austria," is designed to encourage and provide support to young researchers at universities. The initiative is intended to contribute to the implementation of concrete business ideas and the promotion of young enterprises. To support spin-offs, local universities and research facilities are necessary to provide a platform and a hub for bringing together research results, new knowledge, technologies, inventions or know-how, not only within individual universities, but across all universities. The knowledge transfer centers, therefore, play a prominent role in the implementation of Spin-off Austria. The project is funded with EUR 15M and over the next three years will provide 40 to 50 spin-offs to Austrian universities.

Investment

Employment bonus

The employment bonus provides funding for the reduction of the additional wage costs and an incentive for the creation of additional full-employment jobs. Companies that create additional jobs from 1 July 2017 can receive a subsidy of up to 50% of the additional wage costs. Only domestic entrepreneurs (or domestic workplaces of foreign entrepreneurs) can apply for the employment bonus. A total of EUR 2B will be made available and this initiative will be re-evaluated after two years.

Action 20,000

The action 20,000 is a labor market initiative of the Ministry of Social Affairs for individuals over age 50, who have not been working for at least one year. The initiative aims to create 20,000 new jobs across all districts in Austria. The action 20,000 employment campaign was launched on 1 July 2017 as a pilot project, under which up to 100% of the wage and additional wage costs or vocational education are subsidized, with a total amount of EUR 778M provided.

Incentive for training and skills development

Funding related to the support and training of new recruits and/or upskilling of the existing workforce is available nationwide, although the conditions and requirements differ depending on the funding agency and the specific requirements.

Investment growth grant

The government has introduced a comprehensive package of measures to enhance the economy and labor market, including an investment growth grant for purchased depreciable fixed assets available only to SMEs. The funding amount depends on the size of the company, as well as the increase in investment, and amounts to either 10% or 15% of the purchased assets. The investment growth grant will be available for 2017 and 2018 up to a total amount of EUR 175M. The goal of this incentive is to increase investments by EUR 1.2B and to create 25,000 jobs.

Other

Broadband infrastructure grant

As a location for business, Austria offers a competitive broadband infrastructure that allows companies to keep up with digitization. To provide high performance broadband access nationwide, additional funding of EUR 1B is available from 2015 to 2020. This program supports large-scale enhancement of internet accessibility with a speed of more than 100 Mbit/s per connection. Funding depends on the specific calls for the topics "Access," "Backhaul," and "Empty piping." A main research topic is the implementation of a 5G mobile network.

Belgium

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Super deduction (refundable in some circumstances) and withholding tax exemption for qualified researchers	Greater of 4.57% of R&D investments carried on the balance sheet or 6.96% of depreciation taken on such R&D investments, plus an 80% withholding tax exemption for qualified researchers	Greater of 4.57% of R&D investments carried on the balance sheet or 6.96% of depreciation taken on such R&D investments, plus an 80% withholding tax exemption for qualified researchers
R&D grant (national)	No	Yes	No	Advance	Cash grant	Depends on region	Depends on region
R&D grant (EU)	Yes	No	No	Advance	Cash grant	Up to 100% funding	Up to 100% funding
Patent box—Innovation Income Deduction	Yes	No	Yes	Arrears	Tax deduction	85% of net IP income	85% of net IP income
Investment							
CAPEX	No	Yes	Yes	Arrears	Varies	Varies	Varies
Environmental sustainability							
Environmental sustainability	Yes	No	Yes	Arrears	Super deduction for energy saving investments	Greater of 4.57% of R&D investments carried on the balance sheet or 6.96% of depreciation taken on such R&D investments	Greater of 4.57% of R&D investments carried on the balance sheet or 6.96% of depreciation taken on such R&D investments

Key: =Yes =Limited availability =No =N/A

Notes:

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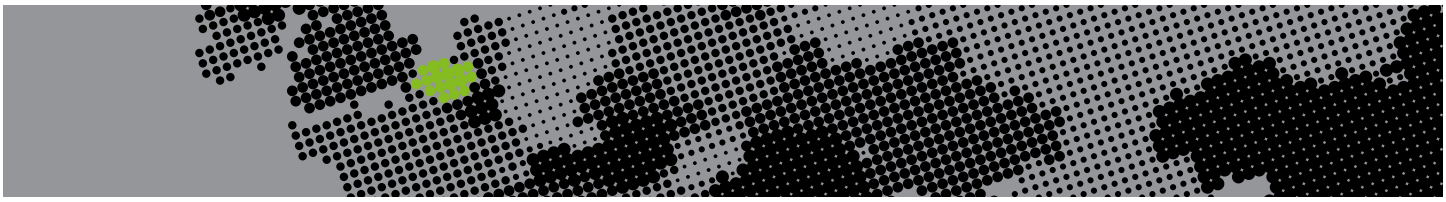

Belgium

Innovation income deductions, super deductions, and wage tax exemptions are a few of the incentives offered in Belgium

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R&D tax incentives

Background

The general corporate tax rate in Belgium is 33.99%.

Nature of incentives

R&D super deduction/refundable tax credit

A taxpayer may elect a 13.5% one-time additional deduction of all R&D investments recorded on the balance sheet (tangible and intangible/acquired patents) or a 20.5% additional deduction of the total depreciation amount for the same R&D investments (i.e., the taxpayer computes the depreciation amount and multiplies that amount by 20.5%). This deduction is granted in addition to the standard depreciation deduction for such expenses, resulting in a super deduction of 120.5% of the amount of depreciation for tangible and intangible R&D investments. The government reviews the rates annually.

Taxpayers can obtain a refund if the excess deductions are not utilized after five years, by converting them to a refundable tax credit equal to the deduction multiplied by the corporate tax rate. The tax credit, therefore, amounts to 4.57% of all R&D investments recorded on the balance sheet, or 6.96% of the total depreciation amount for the same R&D investments, depending on the election.

A regional authority must issue a certificate authorizing the research tax incentive and the certificate must be included with the tax return.

Partial wage tax exemption for R&D

An 80% withholding tax exemption is granted to a company for wages paid to qualifying researchers working on R&D projects. This incentive allows for a 20%–25% decrease of the salary costs for a researcher dedicated to working on qualifying R&D activities. Eligible employees must have a Master's degree or higher in the scientific area. The diploma requirements do not apply in certain circumstances (i.e., where a young innovation company is the employer or the individual is working under a university research agreement). Special regimes apply for expatriates working in R&D. The government is considering expanding the scope of this benefit from January 2018 to individuals with bachelors' degrees. Specific conditions and a reduced exemption percentage may apply.

A company may be granted temporary "innovation premiums" for its employees, thus eliminating tax and social security withholding requirements.

Accelerated depreciation

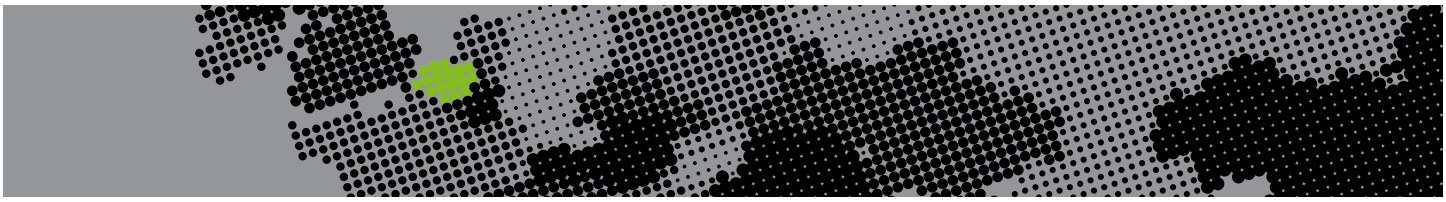
Assets used in R&D may be depreciated over a period of three years.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. To receive the deduction or to claim the benefit, the taxpayer must certify that the R&D investment aims to develop products and services that are:

- Innovative in the Belgian market; and
- Will not have a negative impact on the environment (or, if there is an environmental impact, the taxpayer has taken steps to mitigate that impact).

Qualifying costs include salaries and wages, direct costs, subcontracting costs, overhead, and depreciation.



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R&D tax incentives (continued)

IP and jurisdictional restrictions

The R&D super deduction/tax credit may be claimed for R&D work performed outside Belgium, but the claimant must retain some associated IP in Belgium to receive the tax benefit. There is no IP ownership requirement for the partial wage tax exemption.

Other concerns

A taxpayer must request an environmental certification from the regional authorities within three months after year-end and obtain a certificate from the region in which the qualified activity takes place.

The partial wage tax exemption is applicable only to new projects that have been reported to the Belgian authorities.

Patent box

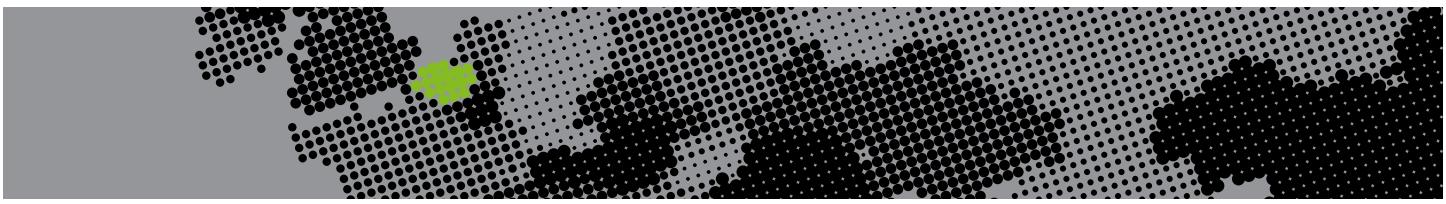
Patent income deduction (PID)

The PID allows taxpayers to claim a deduction on their tax return of 80% of their qualifying patent income. This deduction results in a 6.8% maximum effective tax rate on patent income. The PID was repealed on 1 July 2016, but continues to be available for a transition period ending on 30 June 2021 (for patent requests filed before 1 July 2016). The innovation income deduction (IID) described below will replace the PID. A transition rule permits taxpayers to elect the PID or IID during the transition period that ends on 30 June 2012.

Innovation income deduction

The IID law became effective on 20 February 2017 and applies retroactively to 1 July 2016, i.e., the date the PID was repealed. The IID allows taxpayers to deduct on their tax returns 85% of their net qualifying IP income from their taxable income. If the deduction cannot be utilized, the unused portion may be carried forward. The main differences between the PID and IID regimes are that under the IID regime: (i) the deduction is computed on net "IP income"; (ii) a nexus ratio (based on historical costs) is used; (iii) the deduction is increased to 85%; and (iv) the scope of "qualifying IP" is expanded, e.g., the IID covers copyrights on software commercialized after 1 July 2016, plants breeders' rights, orphan drugs income, and market exclusivity income.

The PID and the IID generally are applicable to patents developed by the Belgian entity and to improvements to existing patents owned by other legal entities.



Belgium

Belgium offers regional cash grants for research projects, as well as tax incentives for energy-saving investments

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Government incentives

Innovation

Regional grants for R&D

The regional governments may offer cash grants for R&D-intensive entities, which can cover up to 80% of total project expenditure depending on the location of the project, the type of R&D activities, and the type of funding instrument. Regional cash grants generally are not taxable.

Examples of specific grant programs offered in each of Belgium's three regions include:

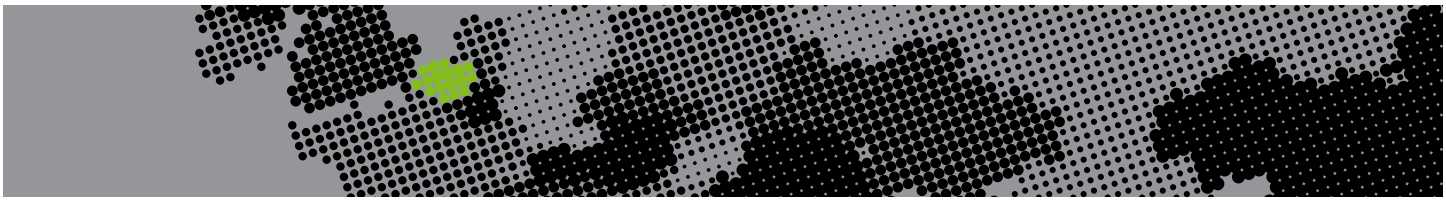
- The Strategic Transformation Support program in Flanders provides support to SMEs or multinational companies that make significant commercial investments in the region.
- The Industrial R&D Funding Program in the Walloon region funds SMEs and multinational companies through cash grants and/or reimbursable loans. This type of grant can be combined with the tax incentives described above.

Environmental sustainability

Energy saving investment deduction

A taxpayer may elect a 13.5% one-time additional deduction of all qualifying energy-saving investments recorded on the balance sheet (tangible and intangible) or a 20.5% additional deduction of the total depreciation amount for the same energy-saving investments (i.e., the taxpayer computes the depreciation amount and multiplies this amount by 20.5%). This deduction is granted in addition to the standard depreciation deduction for such expenses, resulting in a super deduction of 120.5% of the amount of depreciation for tangible and intangible energy-saving investments. Excess deductions may be refunded if not utilized after five years. The government reviews the rates annually.

A similar investment deduction is available for R&D, as noted above. However, the investment deduction for energy savings cannot be converted to a refundable credit, but may be carried forward without limitation. Taxpayers must obtain a certificate from the region where the energy saving investment is made and submit the certificate with its tax return.



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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Advance	Multi-tiered super deduction	27.2%–34% of qualified research expenses	27.2%–34% of qualified research expenses
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
Research-related CAPEX investment	Yes	No	Yes	Advance	Accelerated depreciation or amortization	Current deduction for CAPEX used exclusively for R&D activities	Current deduction for CAPEX used exclusively for R&D activities
CAPEX—Corporate income tax reduction for projects in north/northeast regions	Yes	No	No	Arrears	Tax allowance	75% reduction in corporate income tax payment for 10 years	75% reduction in corporate income tax payment for 10 years
CAPEX—Corporate income tax reinvestment for projects in north/northeast regions	Yes	No	Yes	Arrears	Tax allowance	30% reduction in income tax due	30% reduction in income tax due

Key: Yes, Limited availability, No, N/A

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Brazil

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—REIDI/REPENEC/ REPORTO: Special Incentive Regimes for development of infrastructure in oil and gas sectors	Yes	No	No	Advance	Tax allowance	Suspension of PIS/ PASEP, COFINS, and sometimes IPI on acquisition of equipment and services for projects	Suspension of PIS/ PASEP, COFINS, and sometimes IPI on acquisition of equipment and services for projects
CAPEX—State tax incentive programs	No	Yes	No	Advance	Tax allowance	Up to 100% reduction of ICMS due	Up to 100% reduction of ICMS due
Ex-tariff regime for imports of capital, computers, and telecommunication assets	Yes	No	No	Advance	Tax allowance	Up to 14% reduction in import duty for capital, computers, and telecommunication assets for which there is no local similar product	Up to 14% reduction in import duty for capital, computers, and telecommunication assets for which there is no local similar product
Other							
Municipal development —Municipal tax incentives	No	Yes	No	Advance	Negotiated	Varies	Varies
Manufacturing projects in Manaus Free Trade Zone (Amazon)	Yes	Yes	No	Advance	Tax allowance	Reduction of import duty, exemption from IPI, reduction of PIS and COFINS contributions, and reduction of ICMS	Reduction of import duty, exemption from IPI, reduction of PIS and COFINS contributions, and reduction of ICMS

Key: =Yes =Limited availability =No =N/A

Brazil

Brazil offers super deductions that are enhanced for companies that increase the number of personnel who work exclusively on research projects

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R&D tax incentives

Background

The general corporate tax rate in Brazil is 34%. The incentives listed below are available for companies that operate under the Lucro Real tax regime (actual profit method), whereby the company must be generating a profit during the year in which the incentive is claimed.

Nature of incentives

Super deduction and enhanced super deduction

The super deduction is equal to 160% of the total R&D expenditure.

If the entity increases the number of researchers dedicated exclusively to research projects by up to 5% in a given year, the super deduction increases to 170%, and if headcount increases more than 5% in a given year, the super deduction increases to 180% of qualifying expenses. Employees who relocate internally to work exclusively on qualified research projects also may be taken into account in calculating the increase in the number of researchers. Unused deductions may not be carried forward or back.

Super deduction and enhanced super deduction for companies performing IT/Automation activities

The super deduction is equal to 260% of total R&D expenditure.

If the entity increases the number of researchers dedicated exclusively to research projects by up to 5% in a given year, the super deduction increases to 270%, and if headcount increases more than 5% in a given year, the super deduction increases to 280% of qualifying expenses. Employees who relocate internally to work exclusively on qualified research projects also may be taken into account in calculating the increase in the number of researchers.

Enhanced super deduction for patents

An extra 20% deduction is allowed for qualifying costs incurred in developing a patent, but the super deduction is granted only if a patent is registered. Since the taxpayer's eligibility for claiming the super deduction is delayed until the patent is registered, few taxpayers take advantage of this provision. Unused deductions may not be carried forward or back.

Depreciation/amortization

For corporate income tax purposes, a 100% depreciation is allowed in the year of acquisition for new machinery, equipment, and instruments dedicated to R&D, as well as 100% amortization for intangibles used in R&D.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Activities undertaken to achieve technological innovation qualify for the R&D tax incentives. These activities include designing new products or processes, as well as the aggregation of new functionalities or characteristics to a product or process, resulting in incremental improvements in quality or productivity. Software development qualifies as an R&D activity if it is undertaken to advance scientific or technical goals.

R&D expenditure includes wages, salaries, and certain payments made to third parties (e.g., laboratory tests, etc.) that are directly attributable to the conduct of qualified R&D activities.

The Brazilian tax authorities have issued guidance on the following issues:

Professionals partially dedicated to R&D—Taxpayers should amend employment contracts of employees that are partially dedicated to research projects to specifically indicate that the employees work as researchers in technological innovation projects. If the employment agreement is not changed, expenses connected with the employees that are partially dedicated to R&D cannot be included in the R&D tax incentive calculation.

R&D subcontracting—Tax incentives for subcontracting expenses are limited to the following:

- Contracts with service providers, provided the hiring company assumes the responsibility, enterprise risk management, and control of project expenditure;

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R&D tax incentives (continued)

- Payments made to small businesses for the implementation of research projects, even if the subcontracted party participates in the profitability of the final economic results of the project; and
- Part of the qualified expense amounts incurred for contracted technical services, such as laboratory trials and testing, provided the taxpayer does not participate at all in the execution of the services.

Expenses related to administrative and indirect services are not eligible, even if they are associated with a research project. Such expenses include security, cleaning, maintenance, library and documentation services, as well as coordination, administration, and financial monitoring of research projects.

IP and jurisdictional restrictions

Only expenditure incurred within Brazil is eligible for the incentives (except for the reduction in the tax on industrial profits (IPI) discussed below). The resulting IP does not have to be held within Brazil.

Other concerns

To qualify for the super deduction, a company must have a tax clearance certificate for the entire calendar year in which the incentive is taken.

The total amount of the tax incentive must be reported on the income tax return (ECF—Digital Tax Bookkeeping) by the end of July of the following fiscal year. Technical information on the R&D activities/projects of the relevant fiscal year must be reported annually on the MCTI (Ministry of Science, Technology and Innovation) R&D online form by the end of July of the following fiscal year.

Specific accounting controls are required, i.e., the chart of accounts must present specific accounts indicating the R&D expenditure. The tax authorities require an internal control of costs and expenses for each R&D project, using consistent and standardized criteria throughout the fiscal year, and a detailed and specific recording of all expenditure.

A group of technical specialists will conduct a technical review of the claims, as well as the alignment of the nature and costs of the activities.

Brazil also provides the following additional research incentives:

- Equipment, machinery, and tools used exclusively for R&D may be deducted at the time the expense is paid or incurred. The depreciation expense recognized for accounting purposes must be added back on the income tax computation. However, if assets initially acquired for use in R&D activities are subsequently sold or used for other activities, the difference between the expenses paid or incurred and the expenses already added back must be added back to income tax computation in the period the asset is sold or used for other activities.
- Equipment, machinery, and tools that are used exclusively for R&D receive a 50% reduction of the IPI due. This incentive must be claimed at the time the research-related equipment, machinery, or tools are acquired.
- Equipment, machinery, and tools acquired exclusively for R&D by IT companies and companies engaging in automation activities that benefit from a reduction in the IPI can take a super deduction on the cost of such equipment.

Brazil

Brazil offers a variety of incentives to encourage investment in certain regions

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Government incentives

Investment

CAPEX—Corporate Income Tax Reduction in the North and Northeast Regions

This incentive is provided to companies with CAPEX investments in the north and northeast regions of Brazil, the state of Mato Grosso, and part of the states of Espirito Santo and Minas Gerais and that operate in selected economic sectors. Most manufacturing sectors are eligible for the incentive, except for infrastructure and tourism. The incentive consists of a 10-year 75% reduction in the corporate income tax payment.

CAPEX—Corporate Income Tax Reinvestment in the North and Northeast Regions

This incentive for reinvestment is granted to the same companies eligible for the corporate income tax reduction in the north and northeast regions, and can be used in conjunction with the corporate income tax reduction in the north and northeast regions. Companies can obtain a 30% reduction in the tax due. The taxpayer must deposit 30% of the corporate income tax due in a Federal Development Bank, plus 50% of the 30% of the corporate income tax from its own funds (so 15% of the corporate income tax). To receive a refund of the deposit, the company must submit and receive approval for a technical project attesting to the investment in the acquisition of equipment to modernize the plant.

CAPEX—REIDI/REPENEC/REPORTO

Special incentive regimes are available for the development of infrastructure (transportation, energy, gas, water and sanitation, irrigation, and pipeline projects) in the oil and gas sectors. The incentives consist of the suspension of the social integration program contribution (PIS/PASEP), social security financing contribution (COFINS) and sometimes IPI on the acquisition of equipment and services for the projects. The suspension is converted to a zero-rate transaction at the time the goods are incorporated in the company's fixed assets.

CAPEX—State Tax Incentives

A company can receive up to a 100% reduction on the VAT (ICMS) due. The state tax incentives usually are managed by the finance or economic development departments of each state, and granted for industrial undertakings with investments in identified priority sectors. Each state establishes specific financial and tax incentives programs to stimulate local economic development.

Negotiated business incentives—State non-tax incentives

Depending on the relevancy of investment projects, state governments may grant financial benefits through a negotiation process. As result of the negotiation, the company may enter into a memorandum of understanding with the government that will result in the provision of benefits, such as grants or subsidized sales of land areas for project implementation and infrastructure facilitation (road access, electric power, etc.).

Access to Unavailable Products Needed for Business: Ex-Tariff Regime for imports of capital, computers, and telecommunication assets

This mechanism aims to reduce the acquisition costs to import capital, computers, and telecommunication assets. The regime consists of an import tax reduction (usually range between 2% to 14%), and applicable when a similar product is not made nationally.

Export Incentives—Export Processing Zone (EPZ)

This is granted to industries located in EPZs that export at least 80% of their production. The general incentives are a suspension of the taxes on imports or a domestic acquisition of goods and services, and an exemption from license and authorization fees (sanitary, national security, and environmental fees).

Other

Municipal Development—Municipal Tax Incentives

Several municipalities offer tax incentives to promote investments, such as a reduction in the tax on services (ISS) and an exemption from property tax for IT companies and construction of manufacturing sites.

Development Zones—Manufacturing projects in the Manaus Free Trade Zone (Amazon)

The Manaus Free Trade Zone (MFTZ) is a free import and export trade area where special fiscal incentives apply. The objective of the program is to create an industrial, commercial, and agricultural center in the Amazon region under economic conditions that allow development, given local factors and the great distance separating it from its markets. Tax incentives granted in the MFTZ are a reduction in import duty on the inputs of industrial goods; exemption from the IPI; a reduction of PIS/PASEP and COFINS contributions; and a reduction of the ICMS.

Canada

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	Yes	Arrears	Tax credit	Federal tax credit is 15% of qualified expenditure; various provincial rates range from 3.5% to 20%	Federal tax credit is 35% of qualified expenditure and is refundable (maximum is CAD 1.05M per year); various provincial rates range from 10% to 30%
R&D grant (national)—Strategic Innovation Fund	Yes	No	No	Advance	Repayable loans and/or grants	Fund 50% up to CAD 500M, but the maximum amount will be considered only in exceptional circumstances. The sharing ratio and contribution amount will vary by type of activities proposed	Fund 50% up to CAD 500M, but the maximum amount will be considered only in exceptional circumstances. The sharing ratio and contribution amount will vary by type of activities proposed
R&D grant (national)—Industrial Research Assistance Program (IRAP)	Yes	No	No	Advance	Grants	Limited to companies with 500 or fewer employees	CAD 17K to CAD 500K grant for up to 80% of eligible costs
R&D grant (national)—Western Innovation Initiative (WINN)	No	Limited availability	No	Advance	0% interest loans and grants	N/A	Fund up to 50% of total eligible project costs with a total contribution of up to CAD 3.5M
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	Yes	Yes	Advance	Rate reduction and additional deductions	Varies	Varies

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Canada

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX and employment—Southwestern Ontario Development Fund (SWODF)	Red	Yellow	Red	Advance	Repayable loans and/or grants	Grants up to 15% of total eligible project costs with a total contribution of up to CAD 1.5M; loans CAD 5M for projects over CAD 10M with contingent CAD 1.5M loan forgiveness based on new job targets	Companies with fewer than 10 employees do not qualify
Employment—Jobs & Prosperity Program (Ontario)	Red	Yellow	Red	Advance	Low interest loans and grants	Grants of up to 20% of qualified costs; loans of up to 40% of qualified costs (maximum 40%)	Grants of up to 20% of qualified costs; loans of up to 40% of qualified costs (maximum 40%)
Employment—Development of E-Business (CDAE) (Quebec)	Red	Yellow	Green	Arrears	Partially-refundable tax credit	30% of eligible salaries (24% refundable and 6% nonrefundable); a maximum of CAD 25K per employee	30% of eligible salaries (24% refundable and 6% nonrefundable); a maximum of CAD 25K per employee
Training—Canada Job Grant	Green	Green	Red	Advance	Grant	66% of program costs up to CAD 10K per employee per year, no maximum per company	66% of program costs up to CAD 10K per employee per year, no maximum per company
Environmental sustainability							
Sustainable Development Technology Canada (SDTC)	Green	Red	Green	Arrears	Grant	Up to 33% eligible costs for projects over CAD 750K, no maximum	Up to 33% eligible costs for projects over CAD 750K, no maximum
Other							
Canadian film tax credits	Green	Green	Green	Arrears	Tax credit	Varies	Varies
Interactive digital media	Red	Green	Green	Arrears	Tax credit	Varies	Varies
Developing Export Opportunities: the CanExport program	Green	Red	Red	Advance	Grant	Only for companies with fewer than 250 employees and CAD 50M in annual revenue	Grants of up to 50% of eligible project costs to a maximum of CAD 99,999

Key: Green =Yes Yellow =Limited availability Red =No Grey =N/A

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Overview

Canada is a world leader in science, technology, and innovation, and is recognized as one of the most innovative and competitive economies in the world. Canada generates over 4% of global knowledge, despite accounting for just 0.5% of the world's population. Canada's performance is consistently strong in measures related to the quality of education, market regulation, and social factors.

Canada's innovation policies and programs demonstrate its commitment to science, technology, and the growth of innovative firms—fostering a world-class research and innovation system that supports Canadian businesses and economic growth.[1] For example, in 2016, the new Liberal government committed almost CAD 2.9B over five years to initiatives that address climate change and air pollution issues.

Canadian federal government departments, Crown corporations and agencies, and provincial/territorial governments offer funding program and incentive measures to help take Canadian business operations to the next level.

Over the past decade, Canada has witnessed substantial growth in both inward and outward foreign direct investment, reflecting its strong connection to global supply chains.[2] Canada's inward Foreign Direct Investment (FDI) stock reached CAD 768B in 2015, an almost two-fold increase from CAD 398B in 2005. Over the same period, Canada's outbound FDI, the expansion of Canadian direct investment abroad (CDIA) rose from CAD 452B in 2005 to CAD 1,005B in 2015."[3]

Canada offers many attractions for foreign businesses including favorable trade agreements, low business taxes, low electricity costs, a strong and stable banking systems, and an educated and diverse labor force. The government is focusing on foreign direct investment to grow the economy and is considering strategies to boost innovation, commercialize technologies, and expand Canada's trading relationships.

Canada also has very strong IP rules and is a favorable jurisdiction for the protection of IP. Canada does not offer federal tax advantages for knowledge-based businesses, but two provinces provide reduced tax rates for revenue earned from patents and licenses to use patented technologies.

1. Canadian Trade Commissioner, Government of Canada http://tradecommissioner.gc.ca/innovators-innovateurs/strategies.aspx?lang=eng
2. Ibid.
3. Strategy and Analysis Division, Office of the Chief Economist *Global Affairs Canada* Investment In Canada, Nov 2016 http://www.international.gc.ca/economist-economiste/invest/invest-Canada.aspx?lang=eng#6.0

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Canada offers generous tax credits at the federal and provincial levels, including refundable tax credits for SMEs, and provincial patent box regimes

R&D tax incentives

Background

The 2018 combined federal and provincial corporate tax rate on business income ranges between 12.5% and 31%. The tax rate depends on the size of the corporation, ownership, and provincial jurisdiction.

Nature of Incentives

Canada offers support for R&D in the form of direct and indirect funding, including support for research programs at university and research centers. The largest program, with approximately CAD 3B of investment per year, is the Scientific Research and Experimental Development (SR&ED) program for eligible R&D work carried on in Canada.

Scientific Research and Experimental Development (SR&ED) benefits

Incentives for SR&ED, in the form of deductions and tax credits, are available to corporations, individuals, general partners of a partnership, and trusts that carry on eligible activities in Canada. Taxpayers must incur expenditure in respect of SR&ED carried on in-house or by subcontractors performing SR&ED on their behalf. Claims may be filed with the taxpayer's income tax return for each tax year and may be reviewed by the Canada Revenue Agency (CRA). Taxpayers must be prepared to support their claims with contemporaneous documentation and other technical and financial evidence of activities and expenditure.

SR&ED deductions

Allowable SR&ED current expenditure is added to a separate tax pool. Capital expenditure is no longer eligible for SR&ED treatment. At the end of the year, all or a portion of the expenditure pool can be deducted to reduce taxable income. Balances may be carried forward indefinitely to be deducted against taxable income in future years. Some restrictions apply to carry forward balances after an acquisition of control of the taxpayer corporation. The use of the pre-acquisition SR&ED pools is restricted to income earned from the same business carried on after the acquisition of control.

Investment tax credits (ITCs)

Federal ITCs are earned at 15% of qualified expenditure and can be used to offset federal taxes payable in the tax year, with unused ITCs available to be carried forward for 20 years and carried back three years. Some restrictions apply to carry forward balances, including restrictions on the use of ITCs following an acquisition of control of the taxpayer corporation. The use of the pre-acquisition ITCs is restricted to tax on income earned from the same business carried on in Canada after the acquisition of control.

SR&ED credits are taxable to the claimant. Federal credits generally are taxed in the year following the year in which they are applied to reduce taxes or generate a refund.

Enhanced refundable tax credits for small and medium-sized CCPCs

Small and medium-sized Canadian-controlled private corporations (CCPCs) can earn refundable investment tax credits on the first CAD 3M of qualified expenditure at an enhanced rate of 35% if they meet both of the following requirements:

- Taxable income of less than CAD 500K; and
- Taxable capital employed in Canada (TCEC) of less than CAD 10M.

The expenditure limit is reduced for taxable income between CAD 500K and CAD 800K and TCEC between CAD 10M and CAD 50M, as described below.

Both of these factors refer to the tax year before the credit year and are determined at the associated group level.

A CCPC is a corporation that is not controlled by foreign or public corporations. The definition of control is a broad fact-based test (de facto control) that considers multiple factors, including voting control, options to acquire shares, and ability to influence the board.

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R&D tax incentives (continued)

Expenditure limit
The qualified research expenses upon which the refundable credit is computed cannot exceed the annual expenditure limit that is capped at CAD 3M. The expenditure limit declines proportionately as the taxable income and/or TCEC exceed the eligibility requirements specified above, and is nil when taxable income reaches CAD 800K or TCEC reaches CAD 50M for the previous tax year.

Credits are refundable at 100% for expenditure up to the calculated expenditure limit, and become non-refundable 15% credits for expenditure over the calculated expenditure limit. Qualified corporations may be entitled to partial refunds on the excess: 40% of the 15% ITC is payable in cash.

Provincial tax credits
Most Canadian provinces offer SR&ED tax credit programs that supplement the federal incentives. Rates range from 3.5% in Ontario to 30% in Quebec. Enhanced provincial tax credits are available for eligible R&D conducted by universities, research centers, and research consortia. Many provinces offer refundable credits, including Alberta, British Columbia (BC), and Quebec. All provincial credits are included in the definition of government assistance and reduce the qualified expenditure for purposes of calculating the federal ITCs.

Provincial credits generally are taxable in the year of the claim, regardless of whether the credit is used. Waivers are available for non-refundable provincial credits.

The provinces, other than Quebec, follow the federal rules for SR&ED and their incentive programs are administered by the federal tax authorities (other than Quebec and Alberta). The provinces generally require that the claimant be carrying on eligible work in the province and that they have a permanent establishment (PE) in the province.

Quebec offers a Wage Tax Credit on expenditure in excess of CAD 50K (the threshold increases to CAD 225K for large corporations). The credit is fully refundable for expenditures on salaries or wages in Quebec. The credit also is available on 50% of contract payments to Quebec contractors for SR&ED performed in Quebec. The Pre-Competitive Research Tax Credit in Quebec is a collaborative research program that encourages companies to partner with universities and research centers. The tax credit is available at a rate of 14% for eligible expenditure (salaries, 80% of payments to subcontractors, plus overhead of 55% of salaries and materials). Quebec is the only province that offers credits to companies that do not have a PE in the province.

Eligible industries and qualifying costs

Eligible projects
To qualify for SR&ED incentives, work must be performed in Canada to advance the understanding of scientific relations or to advance technologies, to address known scientific or technological obstacles, and to incorporate a systematic investigation or search by qualified personnel. Eligibility is broad and is not limited to particular industries. Eligible work that qualifies includes:

- Experimental development to achieve technological advancement to create new materials, devices, products, or processes or to improve existing ones;
- Applied research to advance scientific knowledge with a specific practical application in view; and
- Basic research to advance scientific knowledge without a special practical application in view.

Although “shop floor” R&D can be eligible under the program, commercial production and routine development are excluded, as are projects in other excluded areas, such as social sciences.

Canada

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R&D tax incentives (continued)

The SR&ED claim must be substantiated by contemporaneous documentation that supports the project as "systematic investigation or search" through a process of experimentation or analysis for the purpose of resolving a problem that cannot currently be addressed with known technologies. Companies must be prepared to provide supporting documentation when their claim is reviewed by the CRA; failure to produce appropriate documentation and other evidence can result in the denial of all or part of the incentive.

Eligible industries
While the SR&ED tax credits are not limited to particular industries, there are special federal and provincial tax credits for selected industries, including interactive digital media, video game development, film and television, as well as industries involved in the development of new technologies that address issues of climate change, clean air, and water and soil quality. These incentives are outside the R&D program and may be claimed in addition to SR&ED benefits. In some cases where the projects and activities overlap, the other incentives may reduce SR&ED claims.

Eligible SR&ED expenditure
Qualified expenditure includes salaries or wages for employees in Canada; materials (consumed or transformed in the course of the SR&ED); 80% of payments to subcontractors for SR&ED performed in Canada by Canadian taxable suppliers[1]; incremental overhead (or a proxy amount in lieu of overhead, see below); and payments to Canadian universities, colleges, and consortia.

Special rules apply to contract SR&ED to prevent duplicate claims by Canadian companies. There are also rules that require the recapture of ITCs claimed for materials that are purchased for SR&ED but are subsequently sold or transferred for a commercial purpose.

IP and jurisdictional restrictions
The SR&ED program does not impose any restrictions on the ownership of IP. If IP is created in the course of SR&ED activities, and is later sold, the company is not required to repay any of the tax benefits. The company still can claim carryover SR&ED expenditure and ITCs related to the work, provided it continues to carry on business in Canada. If the company is sold, carryover balances can be claimed against future income from the same business.

Research generally must be undertaken in Canada to qualify as SR&ED. However, where employees of the claimant are temporarily working outside of Canada on a Canadian-based SR&ED project, the employer can claim wages for SR&ED performed outside Canada, subject to a cap. The claim for salaries or wages related to foreign work cannot exceed 10% of the claim for salaries or wages for SR&ED work performed in Canada.

Other concerns
SR&ED claims are included in the taxpayer's income tax return. Taxpayers must submit detailed technical and financial information on prescribed forms to claim the federal R&D credit. Provincial claims also are required for each jurisdiction. The deadline for filing research credits is 18 months after the end of the company's tax year (21 months in the province of Alberta). No extensions to this deadline are available, and incomplete claims will be rejected by the CRA if the deficiency is not corrected before the deadline.

Documentation must be maintained to support the claim in the event of a CRA audit. The CRA may conduct a review of the technical eligibility and the expenditure claimed. CRA service standards recommend that refundable claims be reviewed by the CRA within 120 days of receipt of a complete claim (240 days for an amended return). Non-refundable claims should be reviewed within 365 days. There are various avenues to dispute assessments that disallow claims, including filing objections with the CRA and appeals to the tax courts.

Patent box
Two Canadian provinces currently provide reduced tax rates for revenue earned from patents and licenses to use patented technologies:

- Quebec has introduced a patent box regime that applies to innovative manufacturing corporations. The patent box is limited to corporations having more than CAD 15M of taxable capital (i.e., the sum of long-term debt and equity). Companies can benefit from a deduction that is calculated at a specified percentage (66.1% in 2017 and 65.8% in 2018) of the value of qualified patented parts incorporated into the qualified property that the corporation sold or leased in the tax year. The deduction is limited to 50% of the net income derived from the sale, lease, or rental of the qualified property.

1. The Canadian company must have the right to exploit the results of any subcontracted research in order to treat 80% of the contractor fee as a qualified research expense.

Canada

Canada offers a wide range of federal and provincial incentive programs to encourage investment, hiring, environmental sustainability, and innovation

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Government incentives

Innovation

Strategic Innovation Fund (SIF)
This federal program provides funding (repayable and non-repayable) through four streams for R&D, growth and expansion, and large-scale investments in Canada for companies of different sizes from a range of sectors. The program was introduced in 2017 with a budget of CAD 1.26B over five years. The SIF program combines and consolidates previous funding programs (Strategic Aerospace and Defense Initiative, Technology Demonstration Program, Automotive Innovation Fund, and Automotive Supplier Innovation Program). The amount and type of funding available is discretionary and varies by type of activities proposed for a given project. The maximum amount of funding is 50% of project costs.

Industrial Research Assistance Program (IRAP)
This program provides technical advisory services and non-repayable financial contributions to qualified SMEs in Canada to help them undertake technology innovation. Qualified corporations must be established and incorporated in Canada with 500 or fewer full-time equivalent employees. The business must be focused on the development and commercialization of innovative, technology-driven products, services, or processes in Canada. The amount of assistance is project specific, but can range from CAD 17K to CAD 500K for up to 80% of eligible costs.

Western Innovation Initiative (WINN)
This is a CAD 100M federal initiative designed to support SMEs[2] in Western Canada. WINN provides repayable 0% interest loans to promote the commercialization of late-stage research projects to develop new and innovative technology-based products, processes, and services. Companies can receive up to 50% of total eligible project costs, with a maximum contribution of CAD 3.5M.

Investment

CAPEX and employment—South Western Ontario Development Fund (SWODF)
This fund supports high growth potential businesses in southwestern Ontario to increase economic competitiveness and high value job creation. The program funds 15% of eligible costs up to CAD 1.5M in grant funding. Projects with budgets of more than CAD 10M can receive a loan up to 15% of eligible expenditure up to a maximum principal amount of CAD 5M, with a CAD 1.5M loan forgiveness, contingent upon the company meeting the job and investment targets. Project activities supported include operational investments that improve productivity, innovation, and the potential to export goods across Canada or internationally. Eligible project costs include capital equipment, facility modifications or upgrades, internal labor, third-party consultants, and training. Project investments must be at least CAD 500K and must create new jobs upon project completion. Projects with less than CAD 10M spend must generate at least 10 new jobs, and projects with over CAD 10M spend must generate at least 50 new jobs.

Employment—Jobs & Prosperity Program (Ontario)
This program supports innovative projects in Ontario's key sectors, including advanced manufacturing, life sciences, and ICT that improve productivity, competitiveness, and increase access to global markets. The program provides funding in the form of a grant up to 20%, a loan of up to 40%, or a combination of grants and loans up to 40% of eligible project costs, depending on the program stream. Eligible project costs include one-time labor costs directly attributable to a project, purchase, or the upgrade of equipment, external contracts, materials, and R&D with a minimum project size of CAD 5M-CAD 10M, depending on the program stream.

2. For profit businesses with fewer than 500 full-time equivalent employees.

Canada

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Government incentives (continued)

Employment—Development of E-Business (CDAE) (Quebec)
Administered by Investissement Québec, the tax credit for the Development of E-Business in Quebec was introduced to promote e-commerce and information technology industries. The tax credit is equal to 30% (24% refundable and 6% nonrefundable) of eligible salaries paid by the corporation to eligible employees, up to an annual maximum of CAD 25K per eligible employee. To be eligible for the credit, a corporation must obtain an eligibility certificate issued by Investissement Québec for each year the credit is claimed.

Additional investments incentives are available from a variety of sources and each has a specific target audience.

Training—Canada Job Grant and other training and hiring grants
The Canada Job Grant is a cost-sharing program that helps employers offset the cost of training for new or current employees. It is nationally funded and regionally administered. Funding varies depending on the jurisdiction, but the program offers 66% of training costs up to CAD 10K per employee annually. There is no maximum per company.

The program is intended to support companies that require their employees to gain the skills necessary to fill available jobs, invest in their current workforce, and to equip employees with the training necessary to make their business succeed.

There are other federal and provincial programs that assist with hiring and employment, as well as training and upgrading. These include programs for youth, aboriginals[3], trades and apprentices, and broader adult training for job skills.

Environmental sustainability

Sustainable Development Technology Canada (SDTC)
Canada is committed to the creation and commercialization of clean technologies, including alternative fuels, waste management, clean water, and clear air.

At the federal level, the SDTC offers grants to Canadian companies through a number of funds including the SD Tech Fund, which covers up to 33% of eligible costs with an average contribution of CAD 2–4M for large projects to develop new clean technologies. Eligible projects must have a minimum budget of CAD 750K, but there is no cap on project expenditures. The SDTC requires a minimum of 25% private funding, which can include in-kind contributions from consortium partners, and allocates about CAD 100M a year to clean tech projects.

Other

Films and digital media
Film, digital media, video, and television receive support through refundable tax credits, at both the federal and provincial levels. Companies can claim multiple credits based on location and services. Productions must be certified through the Canadian Audio-Visual Certification Office. The tax credits are claimed through the income tax system and claims are administered by the CRA and provincial agencies.

Film production tax credits
Canada offers a refundable film or video production tax credit to Canadian-controlled production companies at 25% of qualified labor paid to Canadian residents employed on a qualified production, net of provincial tax incentives and any other government assistance. Qualified labor is capped at 60% of net production costs. Non-Canadian controlled production companies doing business in Canada are eligible at a rate of 16% of qualified labor. Every province, other than Prince Edward Island, offers additional credits for companies operating through a permanent establishment in the relevant province.

3. Aboriginals are indigenous people to Canada and can benefit from various training programs.

Canada

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Government incentives (continued)

- British Columbia (BC) has a film and video production tax credit based on qualified labor, at rates of 35% for Canadian-controlled production companies and 28% for other corporations. There also is a 12.5% regional tax credit (6% for non-Canadian-controlled production companies) and a 6% distant location credit for qualifying labor. In addition, BC offers a 16% credit for digital animation or special effects. Qualified labor can qualify for multiple credits, in some cases totaling nearly 70% of the labor costs.
- Manitoba offers a film and video production tax credit of 45% of eligible labor or 30% of eligible production costs. There also is a 5% regional tax credit, a 10% bonus for frequent producers, and a 5% bonus for a local producer.
- Ontario has a 35% credit for Canadian-controlled production companies based on qualified Ontario labor, plus a 10% regional credit and a 5% first time producer credit. Non-Canadian-controlled production companies are eligible for a 21.5% credit. In addition, Ontario offers an 18% credit for computer animation and special effects.
- Quebec offers a 40% film and television production tax credit for French language or giant screen productions produced by eligible Quebec-controlled companies. The credit is based on qualified labor, capped at 50% of production costs. There is a regional bonus of 10%, and a 16% bonus for productions that do not receive any other government assistance. For other productions by an eligible Quebec controlled company, there is a credit of 32%, with qualified labor expenditure capped at 50% of production costs, a regional bonus of 20%, a 16% bonus for productions not receiving other government assistance, and a 10% bonus for special effects and computer animation. The credit is 20% for other companies with a 16% bonus for special effects and computer animation. Quebec offers a 35% film dubbing tax credit capped at 15.75% of dubbing costs.
- Film production tax credits also are available in Alberta, the Atlantic Provinces other than PEI, and the territories (Yukon, North West Territories, and Nunavut).

Digital media tax credits—Regionally administered, digital media tax credits can range from 17.5% to 40% of qualifying salary costs (depending on the province). These tax credits incentivize digital media production by reducing the net cost for creating, marketing, and distributing eligible interactive digital media products. The credits are refundable and claimed at the end of the tax year.

Interactive digital media credits for video games and other digital applications are available in many provinces:

- BC offers a 17.5% refundable tax credit based on qualifying BC salaries.
- Ontario offers a 40% refundable tax credit for the development of interactive digital media products based on eligible Ontario labor, including eligible marketing and distribution expenditures. The credit is available to qualifying corporations that develop and market their own products. The credit is 35% for products developed under fee for service arrangements and 35% for the development of eligible digital games.
- Quebec offers a 30% refundable tax credit for multi-media titles intended for commercialization (26.5% for other multimedia titles), with a 7.5% premium for French language titles. The credit is based on the corporation's qualified labor, not the production's qualified labor.
- Nova Scotia offers a tax credit of the lesser of 50% of eligible labor plus a 10% regional credit or 25% of total expenditure plus a 5% regional credit. An animation incentive is available at 17.5% of eligible labor (maximum labor expenditure of CAD 150K).
- Digital media tax credits also are available in Manitoba (40%), Newfoundland and Labrador (40%), and Prince Edward Island (25%).

Developing export opportunities—CanExport program (SME)
This program provides direct financial support for SMEs to develop new export opportunities. An SME for this purpose has fewer than 250 employees and less than CAD 50M in annual revenue. The funding available is 50% of eligible project costs with a maximum grant of CAD 99,999. To qualify for this program, the SME must incur at least CAD 20K in developing export opportunities because the minimum award is CAD 10K (50% of eligible costs).

This national program can provide total funding of up to CAD 50M over five years.

China

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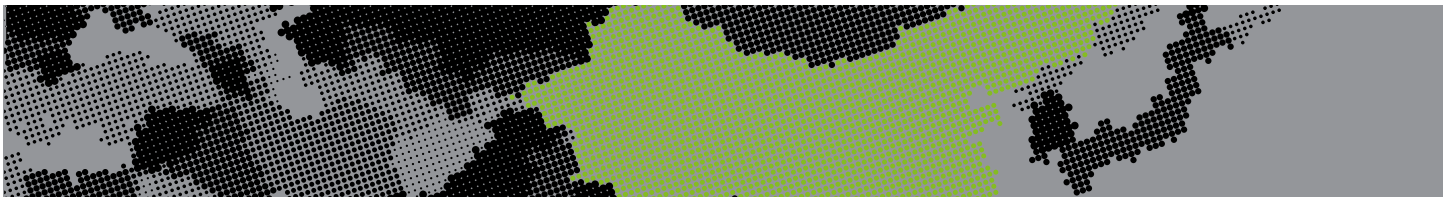
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Super deduction	12.5% of eligible expenses	12.5% of eligible expenses
R&D grant (national)	Yes	Yes	Yes	N/A	Depends on type of R&D project and government budget	Varies	Varies
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	Yes	No	No	Advance	Tax exemption or tax reduction for resident enterprises transferring technology	100% exemption	100% exemption
High new technology enterprise	Yes	No	Yes	Advance	Super deduction and rate reduction	7.5% of eligible expenses and 15% EIT rate	7.5% of eligible expenses and 15% EIT rate

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



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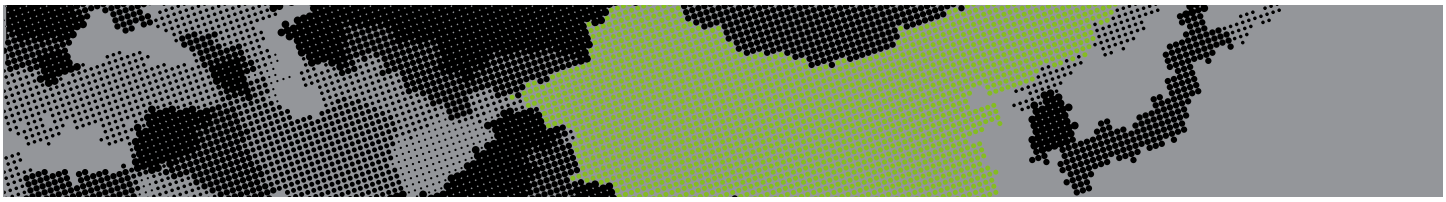
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation (continued)							
Small and medium-sized qualifying science and technology enterprises	Yes	No	Yes	Advance	Increased super deduction and reduced EIT rate	N/A	11.25% of eligible expense and 15% EIT rate
Technology advanced service enterprises	Yes	No	Yes	Advance	Reduced EIT rate in designated cities	15% EIT rate	15% EIT rate
Offshore outsourcing services	Yes	No	N/A	Advance	Exemption from VAT	100% VAT exemption	100% VAT exemption
Investment							
CAPEX	No	Yes	No	Advance	Tax refund of local portion, plus other benefits on case-by-case negotiated basis	Varies	Varies
Employment	Yes	Yes	Yes	Advance	Tax credits are available if certain criteria are fulfilled	Varies	Varies
Training	No	No	N/A	N/A	N/A	Varies	Varies
Environmental sustainability							
Energy sustainability	Yes	Yes	Yes	Advance	Tax credits are available if certain criteria are fulfilled	Varies	Varies

Key: =Yes =Limited availability =No =N/A



China

China offers a variety of tax incentives for R&D, including super deductions and reductions in the enterprise income tax rate

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R&D tax incentives

Background

The standard Enterprise Income Tax (EIT) rate in China is 25%. China offers a variety of tax incentives to encourage R&D, including an R&D super deduction on taxable income, High and New Technology Enterprise (HNTE) status, Small and Medium-Sized Qualifying Science and Technology Enterprise (SMSTE) status, and VAT/Customs duty benefits. A reduction in the EIT rate also is granted in certain instances.

Nature of incentives

Super deduction

Under the EIT law, a resident enterprise may deduct 150% of qualifying R&D expenses actually incurred, i.e., an additional 50% deduction on top of the normal expense deduction, in computing its tax liability, if the expenses do not result in the creation of an intangible asset. If intangible assets are developed, the qualifying R&D expenses that have been capitalized may be amortized based on 150% of the actual R&D costs.

Reduced tax rates for High and New Technology Enterprises (HNTEs)

For tax years beginning on 1 January 2016, companies qualifying for HNTE status are eligible for the 150% super deduction for qualified R&D expenses, in addition to a 15% reduced EIT rate.

To be eligible for HNTE status, the technology that plays a core supporting role in the main product/service of the company must fall into one of the following state-encouraged technology areas:

- Electronic information;
- Biological and medical
- Aviation and space;
- New materials;
- High technology services;
- New energy and energy conservation;
- Resources and the environment;
- Advanced manufacturing and automation.

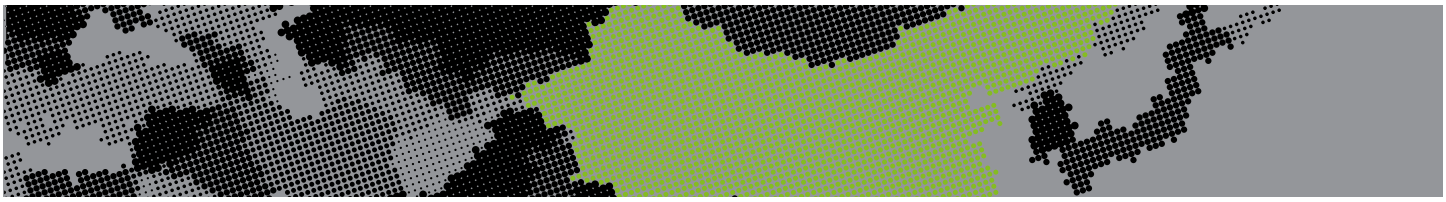
For HNTE recognition purposes, qualifying activities include the development of new technology, new products, and new production techniques. HNTE status is granted for a three-year period and reviewed annually.

Small and medium-sized qualifying science and technology enterprises (SMSTEs)

On 2 and 3 May 2017, the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and the Ministry of Science and Technology issued guidance that increases the super deduction percentage applying to R&D expenses incurred by SMSTEs for the period 2017 to 2019, from 150% to 175%. The guidance, which applies as from the date of issuance, also clarifies the qualification and evaluation criteria and the application procedure for qualifying SMSTEs on the basis of self-evaluation and voluntary reporting.

To qualify as an SMSTE and be eligible for the 175% super deduction, an enterprise must meet all of the following requirements:

1. Be an enterprise registered within the People's Republic of China (excluding Hong Kong, Macau, and Taiwan);
2. Employ fewer than 500 individuals, have annual sales revenue less than CNY 200M, and total assets less than CNY 200M;
3. Not have any products or services that fall within a prohibited or restricted category;
4. In both the previous year and the current year of registration, not have any major safety or quality incidents, not commit any serious illegal acts relating to environmental protection or fraudulent acts relating to scientific studies, and not be included on the list of enterprises that have engaged in "abnormal" operations or the list of dishonest enterprises with serious violations; and
5. Achieve a satisfactory level of "integrated evaluation" for SMSTEs.



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R&D tax incentives (continued)

An enterprise that meets the requirements in 1–4 can immediately qualify as an SMSTE if it also fulfills any of the following conditions:

- It holds a valid HNTE qualification certificate;
- It has been awarded a national level science and technology prize within the last five years and was ranked in the Top 3 of all enterprises winning the award;
- It has an R&D department that has been identified as one that meets certain standards by departments at or above the provincial or ministerial level; or
- It has played a leading role in formulating international, national, or industrial standards in the previous five years.

VAT/Custom duty incentives

An exemption from VAT (with input VAT refundable) is available for providing R&D, offshore outsourcing services, or transferring technologies to foreign entities. An exemption (with input VAT not creditable or refundable) also is provided for technology transfers or R&D services (including relevant consulting services) between domestic parties.

Qualified foreign-invested R&D centers may be eligible for an exemption from import duty, VAT, and consumption tax on the import of equipment, devices, and instruments through 31 December 2018.

Qualified private non-enterprise technology institutions may be eligible for an exemption from import duty, VAT, and consumption tax on the import of items for scientific R&D use.

Eligible industries and qualifying costs

Qualifying activities

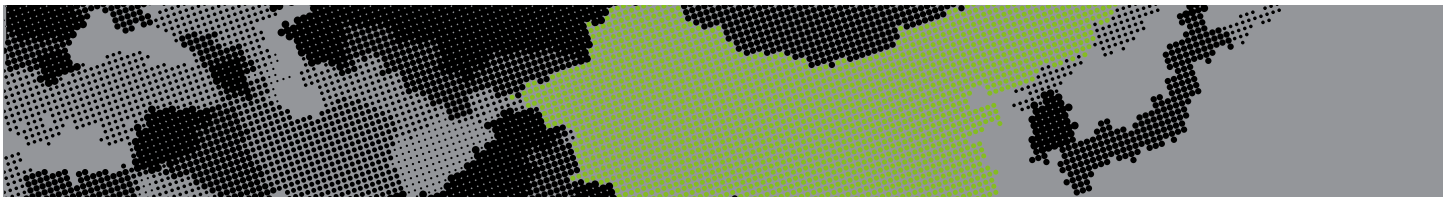
Negative list

A "negative list," adopted on 1 January 2016 to replace the previous "positive list" that restricted eligibility for the super deduction to activities and industries on the positive list, substantially broadens the industries and activities that qualify for the super deduction. The following industries and activities are included on the negative list:

Industries not eligible for super deduction	Activities not eligible for super deduction
• Tobacco • Hospitality and catering • Wholesale and retail • Real estate • Rental and commercial services • Entertainment • Other industries to be specified by the MOF and SAT	• Regular upgrades of products (services) • Direct application of research findings • Support activities following commercialization of a product • Duplication or simple alteration of existing products, services, technology, materials, or processes • Market research, efficiency studies, or management research • Quality control, testing, and analysis or repair and maintenance activities related to industrial (service) processes or that are routine in nature • Research in the social sciences, the arts, or humanities

Expenses that are eligible for the super deduction include:

- Labor expenses (including labor costs for external personnel);
- Direct expenses incurred in the R&D project;
- Depreciation expenses (even if the equipment is not used exclusively for R&D);
- Amortization expenses;



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R&D tax incentives (continued)

- Design and testing expenses (including testing expenses for trial products); and
- Other directly related R&D expenses, such as expert consultation, "high and new technology" R&D insurance, IP application costs, and travel and meeting costs. Eligible expenses in this category are limited to 10% of all eligible expenses for expenditure incurred on or after 1 January 2016.[1]

Up to 80% of fees paid to contractors to perform research on the taxpayer's behalf qualify for the super deduction as long as the fee and related terms reflect an arm's length transaction. Expenses related to R&D activities carried out by contractors that are foreign organizations or individuals are not eligible for the super deduction.

Administration of the super deduction
Streamlined administrative procedures apply for the super deduction as from 2016:

- It is not necessary to obtain advance approval from the relevant tax authorities, i.e., taxpayers merely have to comply with tax return filing procedures.
- Companies undertaking R&D projects at the provincial or ministerial level or above, or projects that span multiple years and that already have been verified, are not required to obtain annual verification by the competent science and technology authorities.
- A company can apply for the super deduction retroactively, within three years after the expenses are incurred.
- Companies are not required to set up special accounts for R&D expenses; however, in addition to complying with the standard accounting treatment under the prevailing financial accounting rules, companies must prepare supplementary financial records to accurately track the actual expenses that are eligible for the super deduction in the current year.

The tax authorities are required to intensify their administration of super deduction claims through regular inspections and monitoring, with audits covering no less than 20% of all cases annually.

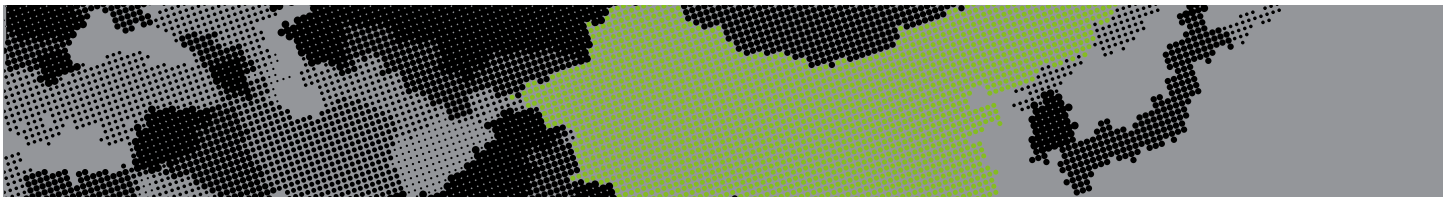
IP and jurisdictional restrictions
The IP must be held by the Chinese applicant.

Although less than 40% of the R&D expenses qualifying for the HNTE incentive may be incurred outside China, the authorities may consider whether IP has been created and retained in China in granting HNTE status.

Patent box
Technology/software companies:

- The first CNY 5M of annual income from qualified technology transfers (including income from a non-exclusive license with a license term of no less than five years) is exempt from EIT.
- Annual income from qualified technology transfers (including income from a non-exclusive license with a license term of no less than five years) in excess of CNY 5M is taxed at 50% of the standard EIT rate.
- Newly established software companies often are granted tax holidays.
- Taxable software companies may be granted VAT preferential treatment on qualified revenue.
- Qualified software companies may be eligible for an exemption from import duties on self-used equipment and materials.

1. For example, if all eligible R&D costs, except other directly related R&D expenses, are CNY 90, the maximum amount of eligible direct support costs cannot equal or exceed CNY 10.



China

Reduced tax rates are offered to companies developing new technologies, products, etc.

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Government incentives

Innovation

Reduced tax rates for Technology Advanced Service Enterprises (TASEs)

A reduced 15% EIT rate applies to TASEs that are located in 21 designated cities. This incentive applies through 31 December 2018. TASE status is obtained by submitting an application and the status will be reviewed annually. TASEs generally are not entitled to the 50% super deduction for qualified R&D expenses, in addition to the reduced EIT rate.

Investment

Investment incentives

The Chinese government offers various incentives related to investments at both the central and local tax authority levels. To promote foreign investment, China allows local governments to introduce investment incentive policies within their statutory limits. The local governments are authorized to support investment projects that make a substantial contribution to local employment, economic development, and technological innovation to lower the cost of the investment and operation of foreign enterprises.

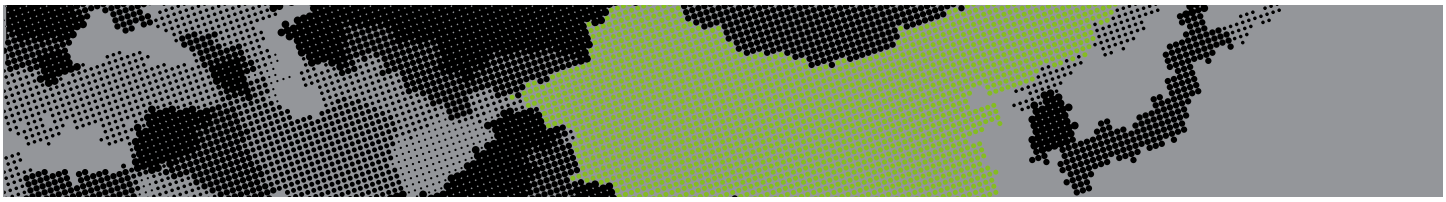
Most incentives offered by local governments are based on negotiation on a case-by-case basis. Incentives commonly include tax refunds, tax credits, free leasing of office space, etc.

Employment

China encourages enterprises to increase the number of job opportunities and support the employment of the unemployed and handicapped, and provides tax incentives for qualified enterprises to achieve a specified ratio for employment of handicapped persons. For instance, a company that hires handicapped persons is eligible for an additional 100% deduction on related salary expenses for EIT purposes, and there are opportunities for VAT refunds that vary based on the number of handicapped individuals hired.

Environmental sustainability

China offers various preferential tax incentives to support different kinds of production and the use of energy-saving technologies and products (e.g., investment in designated energy-saving equipment and facilities is entitled to an EIT credit equal to 10% of the total investment).



Croatia

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	No	Arrears	Tax relief	Maximum intensity of the aid is 25%–100% of total eligible expenses, depending on the type of research. Decrease of companies corporate income tax base for certain percentage of the eligible R&D project expenditures.	Maximum intensity of the aid is 45%–100% of total eligible expenses, depending on the type of research. Decrease of companies corporate income tax base for certain percentage of the eligible R&D project expenditures.
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX—Investment Promotion Act	Yes	No	No	Arrears	Tax relief	100% decrease of corporate income tax rate	100% decrease of corporate income tax rate
CAPEX—EU Grant for Investment in Infrastructure and Equipment	Yes	No	Yes	Arrears	Cash grant	N/A	35% for medium-sized and 45% for small enterprises
Employment	Yes	Yes	No	Arrears	Tax relief	17.2% of temporary relief from social security contributions for new employees	17.2% of temporary relief from social security contributions for new employees
Training	Limited availability	No	Yes	Advance	Grant	N/A	SMEs can apply for grants for specific training related to equipment purchased through projects qualifying for certain EU grants

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Croatia

Croatia provides tax and grant incentives for CAPEX investments; an R&D tax relief incentive is expected to be introduced in 2018

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Government incentives

Innovation

The corporate tax rate in Croatia is 18%.

The R&D incentive regime relies primarily on grants to fund qualifying research projects. The call for proposals published in May 2016 was temporarily suspended in October 2017, with the full allocation of EUR 100M distributed. It currently is unclear whether a new allocation of EUR 100M will be added to this call or whether the new allocation will be postponed until late 2018.

The Ministry of Economy, entrepreneurship and crafts is preparing to re-introduce a tax relief incentive for R&D activities in 2018.

Investment

CAPEX—Investment Promotion Act

Investments qualifying for the Investment Promotion Act incentive may be eligible for a 50% to 100% reduction in the corporate income tax rate for a five to 10-year period, depending on the size of the enterprise, the amount of the investment, and the number of new jobs created. Business activities that can qualify include manufacturing, development and innovation, business support, and high value-added services. The minimum amount of investment in fixed assets is EUR 50K with three new jobs created for micro enterprises, and EUR 150K with five new jobs created for SMEs and large enterprises.

CAPEX—EU grant for investment in infrastructure and equipment

A new call will be published in March 2018 with EU funding available as a cash grant for SMEs investing in infrastructure and/or equipment in manufacturing and the IT sector. Small enterprises will be able to receive up to 45% and medium-sized enterprises up to 35% of co-financing of eligible expenses. Eligible expenses will include costs incurred for:

- Preparing land and land clearing;
- Constructing, reconstructing, and modernizing buildings, business premises, other buildings, and their immediate surroundings directly related to the results of the project;
- Municipal contributions;
- Water and power connections;
- Purchasing new machinery, equipment, tools, work vehicles, and expenses related to activation, transportation and start-up;
- Funding energy-efficient measures;
- Procuring measuring devices related to the project,
- ICT and audio/video solutions (hardware and software) that are directly connected to implementation of project activities; and
- Intangible assets (patents, licenses).

The minimum grant will be EUR 100K and the maximum EUR 2M.

Training

Currently, SMEs can apply for grants for specific training related to equipment purchased through a project (i.e., training for the operation of machinery). A grant can be awarded for participation in trade fairs where a SME can market and advertise the results of the investment (new product/service as a result of investment in infrastructure and/or equipment). However, grants for training and trade fairs cannot be awarded separately without an initial investment in infrastructure/equipment.

The call for proposals under this grant program closed on 31 December 2016, but a new call is expected to open in March 2018.

Croatia

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Government incentives (continued)

Other concerns
The Ministry of Economy, entrepreneurship and crafts is preparing to re-introduce a tax relief incentive for R&D activities in 2018. Based on the currently available draft bill, a corporate income taxpayer in Croatia that receives a certificate from the ministry would be able to decrease its corporate income tax base for a certain percentage of the eligible R&D project expenditure, in relation to the type of R&D project. The corporate income tax base would be able to be decreased by the following amounts:

- Basic research—200% of eligible expenditure;
- Applied research—150% of eligible expenditure;
- Development research—125% of eligible expenditure; and
- Feasibility study—50% of eligible expenditure.

The applicable percentage of tax relief would depend on the type of research conducted. Eligible expenses for these purposes would include staff cost, deprecation or the purchase of new equipment, expenditure for research carried out on a contract basis, additional overhead, and other expenses of the business.

Czech Republic

Overview

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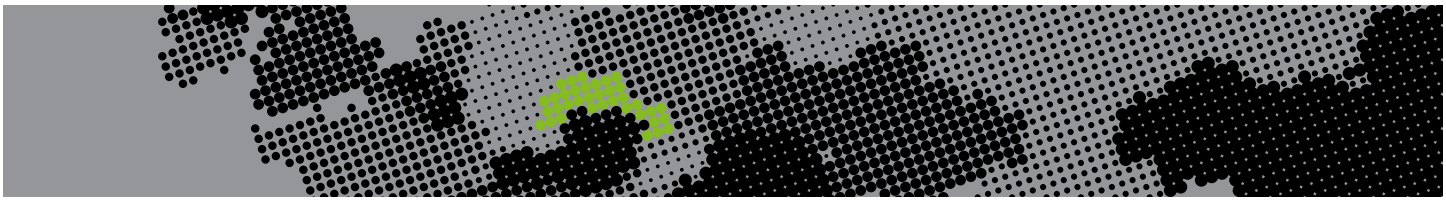
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	Yes	Arrears	Super deduction	19% of qualified research expenses (QREs) and an additional 21% on the increase in QREs over the prior year	19% of qualified research expenses (QREs) and an additional 21% on the increase in QREs over the prior year
R&D grant (national)	Yes	Yes	Yes	Arrears	Cash grant	25%–100% of eligible costs	35%–100% of eligible costs
R&D grant (EU)	Yes	No	Yes	Arrears	Cash grant	25%–100% of eligible costs	25%–100% of eligible costs
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX—Investment Incentives	Yes	Yes	No	Arrears	Cash grant, as well as property and income tax exemptions	Incentives vary, but can be granted up to 25%–100% of eligible costs	Incentives vary, but can be granted up to 25%–100% of eligible costs
Employment	Yes	Yes	No	Arrears	Cash grant	Maximum amount of the subsidy depends on the region and job position	Maximum amount of the subsidy depends on the region and job position
Training	Yes	Yes	No	Arrears	Cash grant	25%–100% of eligible costs	35%–100% of eligible costs

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



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Overview

The Czech Republic lagged behind other developed countries in terms of the total volume of R&D investments for a long time. In the 1990s, the Czech Republic invested only 1% of GDP on average in R&D activities. The situation has improved slightly over the past decade, with the total volume of R&D investments rising to 1.68% of GDP in 2016.

The volume of investment in R&D activities has gradually increased and the latest available statistical data indicates that the total volume amounted to 1.97% of GDP in 2014. This change resulted from support from the EU subsidy program (financed from various EU sources) and the increase in the volume of private sector investments in R&D. Investments mainly are focused on the production of new or innovative products, development centers, and research centers.

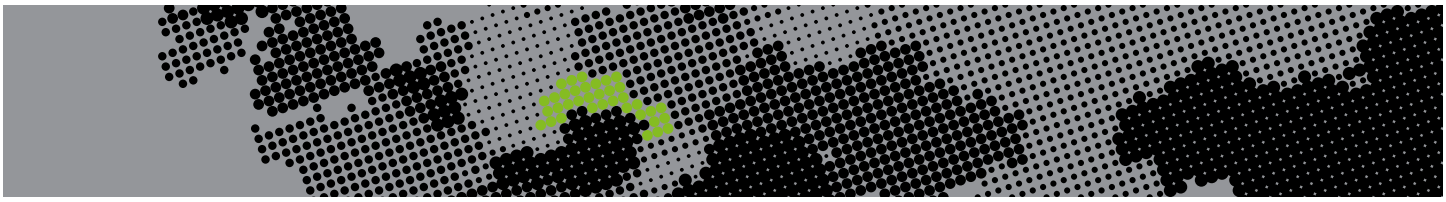
The government has approved the highest budget ever in support of R&D from the national resources: CZK 36B in 2017 (state budget for 2018). The Technology Agency of the Czech Republic (TACR) has opened new programs focused on supporting experimental research, development, and innovation. Program ETA (approved on 16 January 2017) supports research, experimental development, and innovation of applied social sciences and humanities. Program THETA (approved on 19 December 2016) supports applied research, experimental development, and innovation.

Finally, the government has approved the "National Policy of Research and Development and Innovation for the Period 2016–2020," which delineates the key disciplines and research themes. The policy focuses on advancing applied research and included proposes changes in the management and financing of science, which may result in a higher volume of scientific results and stronger involvement of companies in R&D activities. The policy also includes the formation of a new ministry for R&D that should strengthen the pursuit of R&D activities in the country.

As an EU member state, the Czech Republic is participating in the EU's strategy, Europe 2020, the EU's 10-year job and growth strategy. Europe 2020, launched in 2010, aims to create the conditions for smart, sustainable and inclusive growth by focusing on:

- Employment
- R&D
- Climate/energy
- Education
- Social inclusion and poverty reduction

The EU aims to increase R&D investments to a level that is no less than 3% of GDP in each EU member state. In 2016, CZK 80.1B was spent on R&D activities in the Czech Republic, out of which CZK 28.5B was financed from public sources and CZK 51.6B from private sources.



Czech Republic

Research is incentivized through a two-tiered super deduction reducing the cost of research by at least 19% of the qualified research expense

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R&D tax incentives

Background

The corporate income tax rate in the Czech Republic is 19%.

Nature of incentives

The Czech Republic offers a super tax deduction for costs incurred in qualified research activities, as well as investment incentive tax relief and cash grants.

R&D super deduction

The super deduction for qualifying research expenses incurred in the Czech Republic has two components:

- *Volume-based super deduction:* A super deduction of 200% of the costs incurred during the implementation of R&D projects is available. The additional 100% deduction provides tax savings of 19% of qualified research expenses.
- *Additional incremental super deduction:* To the extent the amount of qualifying research expenses increased from the prior year, an additional 10% deduction is permitted on the increased amount. This means that a 210% deduction is permitted on the qualifying costs that exceed the prior period, thereby providing tax savings for the increase in research spending to approximately 21% of qualified research expenses.

Expenses generally are eligible for the R&D super deduction if they:

- Are incurred by the taxpayer in executing an R&D project concerning experimental or theoretical work, planning or design work, calculations, technology designs, production of a functional sample or prototype of a product or its part, connected with the execution of a R&D project;
- Are expenses that are tax deductible; and
- Are separately identified from other expenses.

If the super deduction cannot be utilized in the current period, it may be carried forward for three years.

Eligible industries and qualifying costs

The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual. The basic criteria are the presence of a measurable element of novelty and clarification of research or technical uncertainties. These may exist even if the subject of the research is known in the industry if certain conditions are fulfilled.

Qualifying activities include the introduction of new or improved technology, systems, or services, and the production of new or improved materials, products and equipment, design and verification of prototypes, pilots, or demonstration equipment.

Qualifying expenses include wages and salaries; materials; depreciation of tangible property used in direct relation to the project, and other operating expenses directly related to the project (i.e., travel reimbursements, low value assets, costs related to finance leasing, and other operating costs).

Purchased R&D, contract research, and other services are not qualified research expenses. There is an exception, however, for:

- R&D services provided by public universities and public research institutions;
- Services related to the R&D project (verifying or proving that the result of the R&D meets the requirements in legal regulations); and
- Finance leasing of tangible assets connected to the realization of the R&D project.

The super deduction excludes expenses paid for via government subsidies and public subsidies.

IP and jurisdictional restrictions

The IP created through qualified research does not need to be registered under the name of the taxpayer that is claiming the R&D deduction. Not all R&D activities must occur within the Czech Republic to qualify for a super deduction, but the qualifying expenses described above must be tax deductible expenses of the Czech taxpayer.

Other concerns

Documentation requirements are imposed on taxpayers that claim super deductions. Before the project starts, the taxpayer must compile a written R&D document specifying the qualified activities. At the end of the taxation period, the taxpayer must prepare a document specifying the costs incurred in the qualified project. These documents must be prepared and retained, but do not have to be submitted with the annual tax return, although the tax authorities can review the documents during a tax audit. An expert opinion that approves the R&D nature of activities performed within the R&D project may need to be obtained.

Czech Republic

The Czech Republic offers cash grants from national and EU programs to encourage R&D targeting specific industrial and experimental initiatives

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Government incentives

The government offers various subsidy programs to entrepreneurs either from national financial sources or from EU funds. Companies may apply for various kinds of national/international support.

Innovation

National cash grants—R&D

National cash grants are provided from the national financial sources through various types of providers ((Technology Agency of the Czech Republic (TACR), the Grant Agency of the Czech Republic (GACR), and individual ministries). R&D activities mainly are supported by the Ministry of Industry and Trade within various national programs (e.g., Trio). The amount of total support varies and depends on the size of the applicant, the activity, and other conditions (e.g., the maximum amount of subsidy within the Trio program is 80% of eligible costs). Public aid generally is provided in the amount equal to 25% and 100% of eligible costs. The amount of subsidy depends on the type of the subsidy program, e.g., 100% public aid is provided to research organizations for industrial and experimental research.

The TACR supports research, experimental development, and innovation and provides support (in the form of cash grant) through the following programs: Alfa, Beta, Gama, Delta, Epsilon, Omega, Competence Centres, and Zeta. Beneficiaries of cash grants may be separate business entities (legal persons or individuals) or research organizations. Support provided by TACR varies by the type of program and the size of the applicant. The maximum amount of the subsidy is limited by the type of subsidized activity:

- **Industrial research:** The subsidy is an amount equal to 50% to 65% for large enterprises, 60% to 75% for medium-sized enterprises, and 70% to 80% for small enterprises.
- **Experimental development:** The subsidy is an amount equal to 25% to 40% for large enterprises, 35% to 50% for medium-sized enterprises, and 45% to 60% for small enterprises.

The GACR is the only institution in the Czech Republic that provides support from public funds targeted at basic research for a two to three-year period. The aid mainly is intended to enhance the erudition of scientists. Beneficiaries of cash grants may be: legal persons or individuals, organizational units of the state or territorial government organizational units of the Ministry of Defense, or organizational units of the Ministry of the Interior engaged in research and experimental development.

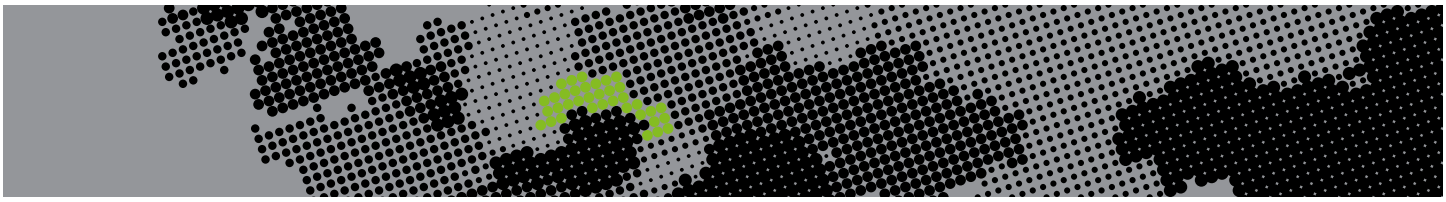
National cash grants to advance culture, environmental protection, support of disadvantaged adults and children, and other targeted policy concerns

Cash grants may be provided by specific ministries. Other ministries (e.g., Ministry of the Environment, Ministry of Labour and Social Affairs, Ministry of Regional Development, etc.) are responsible for special grant programs focused on culture, environmental protection, support of disadvantaged adults and children, etc.

Cash grants from EU funds

Companies generally may apply for various types of direct and indirect support. The amount of the subsidy depends on the type of the subsidy program. While public aid can cover up to 100% of eligible costs, the Operational Program Enterprise and Innovation for Competitiveness (OPEIC)[1] is the most prevalent source of funding, providing aid of up to 70% of eligible costs. Under OPEIC, approximately EUR 4.3B was allocated from the European Regional Development Fund. OPEIC provides various types of special programs supporting: R&D activities, innovation, energy saving projects, training centers, marketing projects, other technology projects, etc. The support generally is provided in an amount equal to 25%, 35%, and 45% of eligible costs to large, medium-sized, and small enterprises, respectively (for specific R&D activities, the subsidy may amount up to 50% to 70%).

1. Aid is available through OPEIC for the period of 2014–2020.



Czech Republic

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Government incentives (continued)

In addition to the aid offered through OPEIC, funding is available through the Operational Program Environment (OPPE). The following activities are supported under OPPE: improving water quality and reducing flood risks; improving air quality in human settlements; waste management and material flows, environmental burden and risks; protection and care for nature and landscape; energy savings and technical assistance. The funding from OPPE can cover up to 85% of total eligible costs of the project (notably, 100% funding is available for selected conservation measures that are focused on protection and care for nature and the landscape).

Another source of funding is managed through the Operational Program Employment (OPE). OPE focuses mainly on supporting employment and adaptability of the workforce; social inclusion and combating poverty; social innovation and international cooperation and effective public administration. The maximum amount of the subsidy depends on the region and job position. The total allocation in OPE is EUR 2.15B.

Investment

Support in the form of investment incentives is provided for the following types of activities: manufacturing industry, technology centers (R&D), and shared service centers. The form and amount of the investment incentive varies, depending on the type of investment and size of the applicant.

The investment incentive is 25%, 35%, and 45% of the eligible costs for large, medium-sized, and small enterprises, respectively. The investment incentive is a combination of the following types of support:

- Corporate income tax relief for a period of 10 years;
- Cash grant for job creation of up to CZK 300K;
- Cash grant for the training and retraining of employees of up to the amount equal to 50% of training costs;
- Property tax exemption for a period of five years in special industrial zones; and
- Cash grant for the acquisition of assets of up to 10% of eligible costs (applicable for strategic investments).

CAPEX

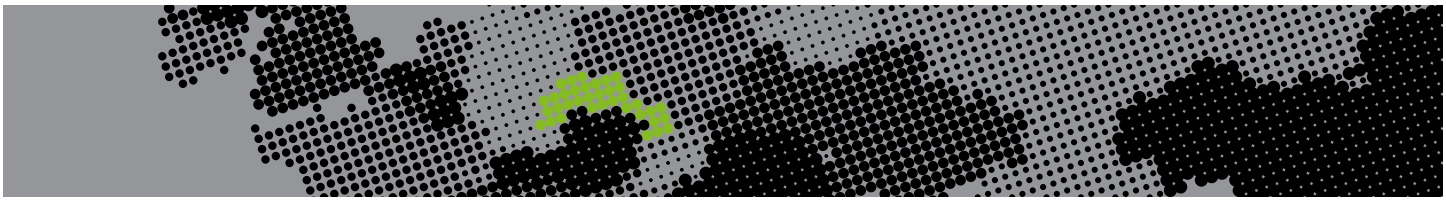
CAPEX investments may be financed by investment incentives (see above) or by EU cash grants. Individual calls are intended to provide public aid for targeted policy concerns; such as encouraging innovation, environmental protection, environmental sustainability, etc. EU grant providers are opening calls for proposals (usually every year), and some calls are limited to SMEs. Public aid generally is limited to funding the purchase of new assets. The maximum assistance offered through grant funding is set by the European Commission's public aid rules, but typically ranges from 25%–100% of eligible costs.

Employment

Subsidies to encourage expanding the workforce is primarily provided through the investment incentive scheme (see above), but support also can be provided by local Labour Offices from the national budget. The amount of the subsidy for new jobs varies by region and the type of new jobs created as a result of the public aid. This form of aid generally is contingent on retaining the new jobs for specified periods as defined by agreement with the subsidy provider.

Training

Subsidies for training are provided under the investment incentive scheme (see above) or from EU funds, and can fund 25%–100% of training costs. The training programs are supported by the Labour offices or Ministry of Labour, and some calls for proposals are from EU funds. The funding typically covers operational costs, such as training services, travel, renting training rooms, wages of lecturers, etc.



Denmark

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax—Tax allowances for R&D activities	Yes	No	Yes	Arrears	Tax allowance for experimental and research activities	100% deduction in the year the cost was incurred	100% deduction in the year the cost was incurred
R&D tax—Refundable tax losses attributable to R&D activities	Yes	No	Yes	Arrears	Cash tax credit relating to R&D activities	22% of the tax loss, up to DKK 25M	22% of the tax loss, up to DKK 25M
R&D grant (national)—Denmark National Funds	Yes	No	Yes	Advance	Cash grant	Varies	Varies
R&D grant (EU)	Yes	No	No	Advance	Cash grant	Varies	Varies
R&D grant (national)—Nordic solved	Yes	No	Yes	Advance	Cash grant	Varies	Varies
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
Employment—Favorable expat taxation of employment income	Yes	No	Yes	Advance	Low flat rate taxation for a five-year period for highly skilled employees	Flat rate tax of 31.92% for a five-year period	Flat rate tax of 31.92% for a five-year period
Employment—Beneficial tax treatment of employee share plans	Yes	No	Yes	Advance	Beneficial tax treatment for employee share plans	Tax efficient awards up to a total value of 10% of an employee's annual salary	Tax efficient awards up to a total value of 10% of an employee's annual salary
Other							
Recovery of input value added tax (VAT)	Yes	No	Yes	Arrears	Advance recovery of input value added tax (VAT)	100% of VAT paid on the input related to the VAT-able activity	100% of VAT paid on the input related to the VAT-able activity

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Denmark

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Overview

The government's economic policies reflect a commitment to growth with a view to making Denmark a more attractive place to live, work, and manage a business. To achieve this vision, the public sector has a goal to invest at least 1% of GDP in R&D. The government grants annually DKK 3B in support of research and innovation.

For the sixth year in a row, Denmark has ranked number one as the easiest place in Europe to do business according to the World Bank. Globally, Denmark is number three in the World Bank's "Ease of Doing Business Index." The country ranks second in terms of the most attractive countries worldwide for talented professionals (see IMD World Talent Report 2016) and has been in the top three since 2007. According to the IMD World Competitiveness Center, this shows a balanced approach between commitment to education, investment in the development of local talent, and the ability to attract overseas talent.

Denmark offers many incentives for foreign businesses, including a highly developed infrastructure, a highly educated and diverse work force, tax credits directed at R&D, and a favorable tax regime for foreign researchers and highly paid employees.

Denmark

Denmark offers refundable R&D tax benefits

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R&D tax incentives

Background

The corporate income tax rate in Denmark is 22%.

Nature of incentives

Tax allowances for R&D activities

Costs incurred in R&D activities related to a taxpayer's business generally are fully tax-deductible in the year in which they are incurred, or alternatively, the taxpayer may choose to depreciate the costs in equal annual amounts over the following four years. A combination of the two methods also is available. Costs not deducted in the income year may be amortized over a five-year period. Expenses incurred on certain business assets that are used in conducting R&D, such as machinery and equipment, automobiles, ships, and certain leased equipment, may not be deducted according to the above methods.

To claim the incentive, a taxpayer must file an annual corporate income tax return within six months following the financial year. The deduction is made on the tax return, with a separate application submitted with the tax return.

Costs incurred before business commences are deductible only as from the year the business activities start.

Refundable tax losses attributable to R&D activities

The tax value of losses attributable to R&D is refundable in lieu of being carried forward to offset against future profits. The cash credit can be claimed on losses up to a maximum of DKK 25M per year. The 22% corporate income tax rate is used to calculate the tax value, so the highest possible amount that can be refunded is DKK 5.5M annually. The amount of refundable losses is determined at the controlled group level, i.e., consolidated losses/gains for all affiliated Danish companies. Special rules apply if the company has opted for international joint taxation.

The application for a cash refund on tax losses attributable to R&D activities must be filed along with the annual tax return. Corporations are required to file their return no later than six months following the end of the income year (e.g., if the income year ends in the period 1 February to 31 March, the tax return must be filed by 1 August of the same calendar year).

Eligible industries and qualifying costs

To qualify for the R&D tax credit, the taxpayer (whether an individual or a corporation) must be engaged in, or intend to commence, experimental and development business activities. The costs must be related to the taxpayers' business and must have a commercial purpose (i.e., research undertaken to develop an abstract scientific discovery will not qualify).

The tax allowance is limited to costs incurred in connection with the production of new or materially improved materials, products, mechanisms, processes, systems, or services. Qualifying costs include payroll, rent, raw materials, and consumables, as well as depreciation on the purchase or lease of operating equipment used in R&D. However, costs incurred for significant intangible assets used in research do not qualify. Amounts paid to third parties for carrying out R&D also are covered.

The type of industry has no bearing on the availability of the incentive. Qualification is based solely on the nature of the costs and whether the activities qualify as R&D.

Denmark

Denmark has comprehensive incentive programs to encourage innovation, growth, and R&D

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Government incentives

Both Danish companies and multinational entities can apply for project funding and incentives regardless of their industrial sector. It is easier to apply for funds, however, if the company has a Danish-registered company number.

Innovation

Several funds support innovative projects regardless of the field of endeavor (e.g., health and medical). Both companies and individuals can apply for innovation funds.

R&D grant (national)—Denmark National Funds

Several national funds support the growth of Denmark's economy, including the following:

- Advancement of growth, employment, and exports, particularly in Danish small and medium-sized enterprises (SMEs).[1]
- Support of development and production in the Danish food industry through co-funding of development and demonstration projects aiming to commercialize promising technologies with high market potential, as well as positive environmental effects.
- Eco-innovation, which supports Danish companies with the development and demonstration of new eco-efficient solutions. These would meet Danish and global environmental challenges, with a general focus on water, climate change adaptation, recycling of waste, cleaner air, noise reduction, reduction in hazardous chemicals, and ecological and sustainable construction. The industry's environmental performance also is a factor.
- SMEs and large companies connected to the energy sector or wishing to enter the industry can receive co-financing for projects encompassing the development and/or demonstration of new and efficient energy technologies for research projects directly improving or supporting demonstration activities, and for the development of public-private partnerships for energy technology.

Denmark also offers grants to support R&D-projects aimed at more efficient electricity use, especially focusing on buildings and electricity consumption in the industry.

R&D grant (EU)

The Danish government provides funding to companies operating within the EU. Several Danish programs offer support to SMEs, large enterprises, and research institutions in Denmark for preparing consortia and applications for EU programs.

It is possible to apply for funds in the fields of agriculture, innovation, growth, medical and healthcare, etc.

Nordic solved

Applicants in Denmark can apply for Nordic funding, which allows Nordic private and public companies to apply for funding at any time for projects that are innovative and enhance certain fields, such as the environment or the health sectors. The program provides the possibility to obtain a swift response on a project idea, resulting in funding innovation activities related to new or improved products, processes, services, technologies, and/or ideas that are readily available to markets, governments, and/or society. More than DKK 1B (EUR 133M) is available in funding per year. The specific requirements that must be met to qualify for funding are set forth on the Nordic Innovation—Nordic Solved Program website: http://www.techfunding.eu/nordic-innovation-nordic-solved-Program

Danish Council for Independent Research

Several funds support projects within the technology, entrepreneurship, sustainable energy development, health and pharmaceutical, transport, infrastructure, and food sectors.

Technology and production sciences

Funding is available for specific basic research activities within technology and production science, focusing on application-oriented solutions to problems or new ways of meeting the needs of society.

Social sciences

Funding is available for research in economics, sociology, political science, law, and general social aspects of gender, cultural geography, etc.

Natural sciences

Several funds cover all aspects of research aimed at fundamental scientific issues within natural sciences, computer science, and mathematics. The funds allocate grants to researchers working within natural sciences, computer science, and mathematics with a cognition-related goal.

Commercialization of the results is not required. The funds provide scientific advice within the areas of natural sciences, computer science, and mathematics, either upon request or at the initiative of the fund itself.

1. To qualify as a SME, the company must have a maximum staff headcount of 250 and turnover of less than or equal to EUR 50M.

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Government incentives (continued)

Humanities
Several funds support specific basic research activities within all branches of culture, aesthetics, languages, history, and the theory of cognition, as well as providing scientific advice within the relevant areas.

Medical sciences
Several funds allocate grants to researchers covering all aspects of both basic scientific and clinical medical research, as well as socio-medical research related to human health and disease. The funds also provide scientific advice related to health-scientific issues, either upon request or at the initiative of the fund itself.

Available funding
More than DKK 960M (EUR 130M) in funding is distributed to projects in five research disciplines:

- Technology and production sciences;
- Social sciences;
- Natural sciences;
- Humanities; and
- Medical sciences.

Investment

Employment—Favorable expat taxation of employment income
The expat scheme applies to employees who come to Denmark to work for a period of up to five years and who receive compensation of at least DKK 765,535.80 per year (2017) before the reduction of ATP (a supplementary pension fund). An approved researcher[2] is not required to meet the salary requirement.

Under the expat scheme, employment income, other cash allowances, the value of a company car, free phone, and health care insurance, are taxed at a flat rate of 31.92% for up to five years (compared to a 55.8% marginal rate under the ordinary tax system). The 31.92% tax rate results from applying an 8% Danish labor market contribution (AM-tax) and a flat rate tax of 26%, applied to the income net of AM-tax, i.e., resulting in a tax rate of 23.92%.

The salary before tax, including the value of company car and free phone, etc., must constitute at least DKK 63,794.65 before the deduction of the 8% labor market contribution and public pension contribution each month (2017) on average within a calendar year. The salary requirement is adjusted annually on 1 January.

The expat scheme is available regardless of whether the employee is fully or partially liable for tax. The tax liability must commence when the employment starts in Denmark, but the employee does not have to live in Denmark to benefit from the scheme. The employment must be with a Danish employer.

If the employee has been liable for Danish income tax within the last 10 years before commencing the expat scheme, it is possible that the expat scheme may not be applicable.

Employment—Beneficial tax treatment of employee share plans
Employees can enter into an agreement with their employer to receive tax-efficient awards, up to a total value of 10% of their annual salary, if certain conditions are fulfilled. These provisions apply to shares, conditional share awards, stock options, and warrants (i.e., rights to receive newly issued shares) granted to employees under an employee share plan.

The taxation of such awards is deferred until the date the individual sells the underlying shares. Gains from the sale of the shares will be taxed as share income at a rate of 27% up to DKK 51,700 (2017) for an individual, and 42% for amounts exceeding this threshold. The threshold is doubled for spouses filing a joint tax return.

When an employer has entered into a qualifying agreement with an employee, the employer will be required to report the grant of all awards and the subsequent vesting (conditional share awards)/ exercise (stock options or warrants) to the Danish tax authorities.

Other

Recovery of input value added tax (VAT)
Input VAT related to future VAT-able activities may be recovered, even though output VAT has not yet been declared (e.g., the activity is not profitable or has not been completed). The standard VAT rate is 25%. There is no maximum to the recoverable amount provided the input VAT is related to the VAT-able activity. This is based on EU jurisprudence and is not a unique incentive for Denmark.

VAT filing deadlines
A company can voluntarily opt for monthly VAT reporting, even though the annual revenue subject to VAT would lead to quarterly or half-yearly filing deadlines. This would lead to the possibility for a R&D-company to apply for monthly VAT reporting and recover input VAT each month instead of on a quarterly or half-yearly basis, giving a cash flow advantage.

2. The qualifications of the researcher must be approved by a public research institution or the Danish Independent Research Committee.

Finland

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Accelerated tax deduction	Varies	Varies
R&D grant (national)	Yes	No	No	Advance	Cash grant	Varies (up to 40%)	Varies (up to 50%; for an international joint project up to 65%)
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	Varies	Varies
Loan funding	Yes	No	Yes	Advance	Low-interest loans	Varies (50% to 70% of project costs)	Varies (50% to 70% of project costs)
Environmental sustainability							
Energy aid	Yes	No	No	Advance	Cash grant	Varies per project type	Varies per project type

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Finland

Finland offers accelerated depreciation for R&D expenditure

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R&D tax incentives

Background

The corporate tax rate in Finland is 20%.

Nature of incentives

R&D expenses may be deducted when incurred. Taxpayers also have discretion to depreciate the R&D expenditure over two or more years (but no more than 10 years).

The total deduction for R&D expenditure (whether expensed or through depreciation) may not exceed the amount recorded in the taxpayer's accounts during the tax year and earlier years. However, the taxpayer may choose to expense the cost for accounting purposes and depreciate the cost for tax purposes.

Eligible industries and qualifying costs

Costs incurred in conducting research are deductible regardless of the taxpayer's industry.

There is no definition of R&D expenditure in the tax law. However, based on tax practice and rulings, R&D expenditure includes costs incurred in scientific research, planning of products, building of prototypes, and conducting market research. Examples of research expenditure costs include payroll costs, subcontractor costs, material costs, and costs of equipment, etc., acquired for the purpose of the research.

Costs may be deducted regardless of whether the research is successful or not. Expenditure incurred abroad also may be deducted when incurred. If an R&D transaction is with a related party, the arm's length principle and transfer pricing documentation requirements must be observed.

Accelerated and enhanced depreciation are available for expenditure incurred for buildings used solely for R&D activities. The standard rates for buildings are 4% (offices) and 7% (stores, warehouses, factories, etc.) on a declining basis, but buildings and construction used exclusively for R&D aimed at promoting business are deductible at a rate of 20% on a declining basis. Additionally, construction, equipment, and machinery used to improve environmental conditions may be depreciated at a maximum annual rate of 25%. The standard maximum depreciation rate for equipment and machinery is 25%.

Deductible R&D expenditure includes amounts paid to contractors or research institutions to conduct research on the taxpayer's behalf. Payments made to research institutions may be deductible even when the payment is not consideration for specific research results received by the taxpayer, as long as the research is related to the taxpayer's field of business.

IP and jurisdictional restrictions

There is no requirement that IP created by the research must remain in Finland. If the IP is transferred to a related party, the terms must be at arm's length. If Tekes funding (see below) is used, there may be restrictions on or conditions for the transfer.

As noted above, qualifying R&D costs are deductible when incurred even if the research is performed outside of Finland.

Finland

Finland provides incentives for R&D in the form of grants and loans

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Government incentives

Innovation

R&D grant (national)

Tekes, the Finnish Funding Agency for Innovation, mainly channels public R&D funding to research, product development, and business development. Funding is provided in the form of grants and loans, and is available to companies, research organizations, and providers of public services.

Tekes funds Finnish start-up companies, small and medium-sized companies (SMEs), and large/mid-cap companies.[1]

Tekes grants are intended for R&D by companies that generate new knowledge and competencies. The grant is paid in arrears, based on the reported actual costs. Possible grant amounts are as follows:

- Grants can be awarded to SMEs to cover up to 50% of the total R&D project costs; for international joint projects, the funding can cover up to 65%.
- Grants can be awarded to large companies for up to 40% of total R&D project costs. However, large companies must spend at least 40% of total project costs on acquiring services from SMEs or research organizations, or the project must be a joint venture with SMEs and research groups.

The content and goals of a project determine which costs will be funded. Tekes will approve costs from the date the grant application is submitted provided all application requirements are met.

Eligible cost categories for R&D projects include the following:

- Salaries;
- Indirect personnel costs;
- Overhead;
- Travel expenses;
- Costs of materials and supplies;
- Machinery and equipment purchases;
- Machinery and equipment depreciation costs/machinery equipment rentals; and
- Purchased services.

Eligible costs for a piloting project can include:

- Costs of materials and supplies;
- Design costs associated with the subject of the pilot project;
- Commercialization costs;
- Costs associated with the use of premises during the project;
- R&D costs associated with the pilot or demonstration projects; and
- Leases or depreciation costs for land, buildings, machinery, and equipment associated with the project.

R&D grant (EU)

Companies located in Finland also can apply for R&D grants under EU programs, such as the funding program Horizon 2020 and from European Structural and Investment Funds.

Loan funding

Tekes provides low cost loan funding. The interest rate is three percentage points below the base interest rate (with a minimum loan rate of 1%), and no collateral is required in most cases. If the project fails or its results cannot be commercially exploited, the loan may be partially converted into a grant.

Tekes offers loans covering 50% or 70% of the total costs of development and piloting projects of SMEs. For mid-cap companies, the loan covers a maximum of 50% or 70% of the total project costs, and for large companies, the Tekes loan is up to 50% of total costs. Large corporations also must spend at least 15% of total project costs on acquiring services from SMEs or research organizations, or the project must be carried out as a joint venture with SMEs and research groups.

Environmental sustainability

Energy aid

Tekes grants energy aid to climate and environmentally friendly investment projects that promote energy savings and the production/use of renewable energy, as well as those that reduce environmental damage caused by energy production. The purpose is to promote the implementation of new energy technology and its introduction to market.

Companies of all sizes can apply for energy aid, but the grants are discretionary. The aid amount varies depending on the type of project.

1. A start-up company is less than five years old. A SME is a Finnish company with annual turnover of EUR 50M or less, or a balance sheet maximum of EUR 43M, and having fewer than 250 employees. Finnish companies that employ more than 250 individuals are large companies. Mid-cap companies are large companies having a maximum annual turnover of EUR 300M.

France

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Refundable tax credit	30% of qualified research expenses	30% of qualified research expenses
Innovation tax credit	Yes	No	Yes	Arrears	Refundable tax credit	N/A	20% for certain pilot model and prototype development costs
R&D grant (national)	Limited availability	Limited availability	Yes	Advance	Nonrefundable and refundable cash grants[4]	Varies, around 20%–25% of project expenditure	Varies, around 40% (maximum of 60%) of project expenditure
R&D grant (EU)	Yes	No	Yes	Advance	Nonrefundable cash grant[4]	Varies, around 20%–25% of the relevant project	Varies, around 40% (maximum of 60%) of the project expenditure
Patent box	Yes	No	Yes	Arrears	Reduced tax rate	17% effective tax rate for qualifying income[5]	17% effective tax rate for qualifying income[5]
Investment							
CAPEX	Limited availability	Limited availability	No	Advance	Cash grant (assisted areas) or bonus depreciation deductions	Varies	Varies
Employment—Cash grants for investment and job creation	Limited availability	Limited availability	No	Arrears	Cash grants and tax credit	Varies	Varies
Employment—Competitiveness tax credit	Yes	No	Yes	Arrears	Tax credit	7% of remuneration	7% of remuneration
Other							
Young innovative companies status	Yes	No	Yes	Arrears	Exemptions for corporate income tax, certain taxes, and employer's contributions for SMEs	N/A	Varies
Tax credit for video games	Yes	No	Yes	Arrears	Tax credit	30% of eligible expenditure	30% of eligible expenditure

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. Grants that must be repaid if the project achieves a specified level of commercial success are regarded as refundable grants; nonrefundable grants do not have to be repaid regardless of the outcome of the project.
5. The patent box tax rate is 15%, but certain statutory adjustments results in a final rate of 17%.

France

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Overview

The French government actively encourages the growth of R&D-intensive businesses that focus on innovation and the government offers a range of tax and cash-based incentives.

The budget for R&D tax incentives has continued to increase in recent years, reaching between EUR 5.5B and EUR 6B per year (as compared to EUR 0.7B before 2008). Approximately 20,000 companies annually have been reporting R&D incentives since the current 30% refundable credit was enacted in 2007. The R&D tax credit is one of the few tax incentives that has been consistently supported over the last 10 years, regardless of which political party was in the majority. Following the French 2017 elections, continued support for R&D tax incentives has been reconfirmed.

Also as part of innovation funding, France offers annually about EUR 1.5B in additional support in the form of cash grants, has extended the preferential R&D credit regime to SMEs, and provides tax exemptions for "young innovative companies." In addition, exceptional further cash grants (EUR 4B over 4 years for companies) are being implemented. The government also offers support to patent income via a patent box that grants reduced taxation at a rate of 17% (EUR 250M/EUR 300M per year). The patent box is being reviewed by the EU and the OECD, and legislative changes are likely. Additional incentives are granted exclusively to SMEs.

Looking at incentives more broadly in France, a key tool is the competitiveness credit (CICE) that encourages the hiring of low-salaried employees by offering a tax credit of about 7% of remuneration until 2017 (6% in 2018). The CICE will be replaced in 2019 by a social charges reduction of the same amount. The annual budget for this program is EUR 10B per year. Incentives for investment and employment generally are in the form of cash grants, subject to EU state aid rules.

France

France offers a variety of R&D incentives, including refundable tax credits, grants, special innovation tax credits, and a patent box

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R&D tax incentives

Background

The effective corporate income tax rate ranges from 33.33% to 35%. Based on the 2017 Finance Act, the rate will be progressively reduced to 28% during the period 2017 to 2020.

France offers a volume-based R&D tax credit that may be carried forward for three years. To the extent the credit is not utilized within the three-year period, the taxpayer is entitled to a refund. SMEs, new companies, young innovative companies, and companies with financial issues can request immediate refunds of unutilized credits. The credit also may be financed by a bank if the taxpayer meets certain criteria, e.g., a company may negotiate a credit line based on the unutilized credit.

Nature of incentives

R&D expenses are deductible in the year in which they are incurred. Additionally, France offers an R&D credit equal to 30% of the first EUR 100M of qualifying R&D expenditure incurred during the tax year. The rate is reduced to 5% for qualifying R&D expenditure exceeding that amount, and the 30% rate is increased to 50% in overseas territories.

An extension of the R&D tax credit, called the innovation tax credit, is available to SMEs for certain pilot-model and prototype developments that do not qualify for the 30% R&D credit.

Eligible industries and qualifying costs

There is no restriction on the types of entities that may qualify for incentives. Qualifying activities include basic research, applied research, and development activities. The definition of qualifying R&D is from the OECD Frascati Manual. To qualify, R&D activities must:

- Present a significant technological, technical, or scientific advancement when compared to the current state of the art;
- Be associated with scientific/technological uncertainties and uncertain with regard to the anticipated outcome; and
- Require the use of scientific methods and/or an experimental approach.

Eligible expenses generally include the following: R&D staff expenses, general and administrative (G&A) expenses, depreciation allowances for assets used for R&D activities in France, patent costs, contract research costs, and costs of technological monitoring. Materials used in the research process do not qualify. The law also allows an estimate of G&A expenses; the formula for which is 50% of all R&D staff expenses and 75% of the depreciation allowance of assets used in R&D activities in France (including research equipment and facilities).

The following limitations apply to the amount of qualifying contract research expenses: (i) there is a cap on private[1] subcontracted expenses equal to three times all other qualifying expenses, but the subcontracted R&D fees may not exceed EUR 12M; and (ii) qualifying contract research is limited to EUR 2M where the taxpayer and the subcontractor are related entities.

Contractors performing research on a time/materials basis can claim tax credits for their qualified research expenses because there is no "at-risk" rule under French law.

Cash grants reduce the R&D tax credit base.

1. Private subcontractors refers to companies from the private sector, as opposed to state-owned companies or institutions.

France

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R&D tax incentives (continued)

IP and jurisdictional restrictions

All qualifying activities must take place within the EU and the qualifying expenditure must be part of the company's tax base. There is no restriction on the location of any resulting IP.

Other concerns

The taxpayer can request government pre-approval of projects, although this is not required to benefit from any of the incentives. Taxpayers also can apply for subcontractor certification from the Ministry of Research. Payments made to certified subcontractors are treated as R&D expenditure.

Companies with R&D expenses exceeding EUR 100M must comply with documentation requirements, with penalties applying for failure to comply.

Innovation tax credit

The 20% innovation tax credit is an additional incentive for SMEs to encourage the completion of new/improved product/process development within France by extending the tax incentive to the late stages of development that would not qualify for R&D credit. This credit targets certain pilot-model and prototype developments that tend to occur after the completion of R&D, as defined under French Law, i.e., the Frascati Manual definition of research.

Determining qualifying prototype/pilot-model expenses that are eligible for the innovation tax credit is a two-step analysis: (i) the prototype/pilot-model expenses must be incurred in an activity that does not qualify for the 30% credit (i.e., it must fall outside the scope of the Frascati manual definition of research); and (ii) the prototype expenses must relate to a new/innovative product (i.e., product achieving better performance, functionality, or ergonomics as compared to existing products on the market).

Eligible expenses for the innovation tax credit include staff expenses, G&A expenses, depreciation allowances, and contract R&D costs. Grants providing funding to a qualified innovation project are applied to reduce the tax base of the project. The formula for G&A expenses is equal to the sum of 50% of all innovation staff expenses and 75% of the depreciation allowance of assets used in the innovation activities in France.

The credit rate is 20% (40% for companies in French overseas departments), and the amount of qualifying expenses is capped at EUR 400K (resulting in a maximum EUR 80K innovation credit per year per entity).

Patent box

Income from the licensing or sale of patent or patentable technology (and the sub-licensing of eligible IP rights) is taxed at a maximum rate of 17%[2], provided the patent/patentable technology was created by the company or acquired by the French company more than two years before the sale.[3] Moreover, for the French licensee, the royalty payment is deductible for corporate income tax purposes (unless the licensee does not effectively exploit the IP rights or the IP rights add no value for the licensee.) The following recent OECD commentaries on patent boxes, the French parliament likely will review the patent box legislation, which could lead to changes including implementing the nexus approach.

2. The patent box tax rate is 15%, but certain statutory adjustments results in a final rate of 17%.
3. The sale of patent/patentable technology to related parties may not benefit from the 17% rate.

France

France offers subsidies and favorable tax treatment to encourage innovation, employment and capital expansion

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Government incentives

Innovation

R&D grant (national and regional)

The French national and local authorities offer numerous research grants that typically are targeted at certain industries or outcomes, such as medical research, big data, green technology, smart cities, robotics, etc. Some of the grants (particularly for SMEs) cover expenses that are outside the scope of R&D.

The aid rates generally amount to around 25% for large and medium-sized companies and 40% for small companies. The aid can be combined with the R&D tax credit. These grants generally are non-refundable cash grants, but also can take the form of a refundable grant. Refundable grants are a specific type of instrument in France that require a partial (or sometimes full) repayment of the grant proceeds if the research achieves intended goals (e.g., commercial success), as defined in the grant.

R&D cash grants typically are channeled via the following instruments:

- Competitive project calls from certain funding bodies (e.g., *Program d'Investissements d'Avenir*, *Agence Nationale de la Recherche*, *Fonds Unique Interministériel*, or innovation clusters); or
- Bilateral talks with the local authorities (regional councils distribute their own funds and the European Regional Development Funds (ERDF) funds) or with the *Banque Publique d'Investissement* (a public bank offering a number of cash grants for SMEs).

Investment

CAPEX

Certain R&D and industrial investments can benefit from an exceptional extra depreciation equal to 40% of the original value of eligible assets (i.e., materials and equipment involved in R&D and industrial activities) manufactured, purchased, or leased.

Assets must be eligible for accelerated (declining) depreciation and must belong to one of the following categories (some categories below apply only to certain periods of the incentive):

- Materials and tools used for industrial manufacturing or processing operations;
- Handling of equipment;
- Equipment for the production of steam, heat, or energy, except for equipment for the production of electrical energy subject to regulated tariffs;
- Facilities used for water treatment and atmosphere sanitation;
- Materials and tools used for scientific and technical research activity;
- Software that contributes to industrial activities; and
- Certain types of IT hardware.

Eligible assets must be purchased between 15 April 2015 and 15 April 2017. Assets ordered before 15 April 2017 can benefit from the incentive under certain conditions, even if the transfer of ownership takes place at a later date, provided a 10% deposit is paid before 15 April 2017 and the transfer of ownership takes place within two years of the order.

The depreciation start date is the date the asset was acquired. The extra deduction will be spread over the depreciation period of the equipment. Given the French corporate income tax rate, this incentive corresponds to a 12% to 14% incentive computed on the gross value of the assets, and spread over the life of the assets.

Employment—Competitiveness tax credit (CICE)

The CICE was enacted in 2013 to encourage the employment of low salaried workers. Effective fiscal year (FY) 2017, the credit is 7% of remuneration paid for all salaries up to 2.5 times the statutory national minimum wage. The CICE is a refundable credit, it may be carried forward for three years and, to the extent the credit is not utilized within the three-year period, the taxpayer is entitled to a refund. SMEs, new companies, young innovative companies, and companies with financial issues can request an immediate refund of unutilized credits. Taxpayers can obtain cash immediately through various agreements with banks.

France

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Government incentives (continued)

Based on draft legislation, the CICE will be reduced from 7% to 6% as from 1 January 2018 , then abolished as from 1 January, 2019 and replaced by a reduction in the employer's share of the social charge contribution.

CAPEX and employment—cash grants (national and local)
The national and local authorities have numerous research grants that are subject to EU state aid rules and focused on special lesser developed zones ("assisted areas"). When applicable to large companies (i.e., all companies not meeting the EU definition of a SME), access to aid for investment and job creation is subject to strict prerequisites; for example, the investment must correspond to a new activity for the company (e.g., opening a new site), the diversification of the activities of an existing site, or the creation of innovative manufacturing processes. Additional conditions must be fulfilled for investments exceeding EUR 50M (large projects).

A number of these grants can be accessed only to the extent the investments fall in regional aid zones as per the regional aid map (current map—http://www.observatoire-des-territoires.gouv.fr/observatoire-des-territoires/fr/nouvelle-carte-des-AFR).

Government support (from the national and the local authorities) includes the following:

- Territory planning grant (a national grant capped at EUR 15K per new job);
- Grants, interest-free loans, repayable advances from the local authorities (including support for real estate, including ERDF funds distributed by the regional authorities);
- Corporate tax exemptions in certain areas (e.g., employment priority areas and military restructuring areas); and
- Total or partial exemptions from certain local taxes (*Contribution Économique Territoriale*) for two to five years.

Other

Young innovative company (YIC) status
Specific measures apply to support new companies investing more than 15% of their spending on R&D.

Eligible companies are new businesses that have existed for less than eight years, are independent, qualify as a SME,[4] and at least 15% of their total expenditure is R&D expenditure.

Companies that qualify for YIC status are granted the following exemptions:

- Two-year decreasing corporate income tax exemption (100% for the first profitable year and 50% for the second year);
- Exemption from taxes, such as the *taxe foncière*, *Contribution Foncière des Enterprises (CFE)*, and *Contribution sur la Valeur Ajoutée des Entreprises (CVAE)* upon request for up to seven years; and
- A seven-year capped exemption of certain employer social security contributions for R&D staff remuneration.

Tax credit for video games
Companies that create original and accredited video games can benefit from a tax credit of 30% capped at EUR 6M per fiscal year under certain condition:

- Development costs exceed EUR 100K per video game;
- The game is intended for sale; and
- It is created by French, EU staff, or French residents.

Accreditation (by the *Centre National du Cinéma et de l'image animée*) focuses on evaluating the video games for the inclusion of elements of French culture, cultural creativity, variety, and quality.

4. SMEs are defined under the applicable EU rules as companies with fewer than 250 employees and sales turnover not exceeding EUR 50M or a balance sheet total not exceeding EUR 43M.

Germany

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Red	Red	Grey	N/A	N/A	N/A	N/A
R&D grant (national)	Green	Green	Yellow	Advance	Non-repayable cash grant to companies or consortia	Up to 50% of eligible project costs	Up to 60% of eligible project costs
Research for Energy Efficiency	Green	Red	Red	Advance	Non-repayable cash grant to consortia	Up to 50% of eligible project costs	Up to 60% of eligible project costs
Digitization and automation of production processes	Green	Red	Green	Advance	Non-repayable cash grant to companies or consortia	Up to 50% of eligible project costs	Up to 60% of eligible project costs
New vehicle technologies	Green	Red	Green	Advance	Non-repayable cash grant to companies or consortia	Up to 50% of eligible project costs	Up to 60% of eligible project costs
National innovation program hydrogen and fuel cells	Green	Red	Red	Advance	Non-repayable cash grant to companies or consortia	Up to 50% of eligible project costs	Up to 60% of eligible project costs
R&D grant (EU)	Green	Red	Green	Advance	Non-repayable cash grant to companies or consortia	Up to 100% of eligible project costs	Up to 100% of eligible project costs
Patent box	Red	Red	Grey	N/A	N/A	N/A	N/A
Investment							
CAPEX—Environment Innovation Program	Green	Red	Red	Advance	Non-repayable cash grant or interest-reduced loan to companies	Cash grant of up to 30% of eligible costs or interest-reduced loan of up to 70% of eligible costs	Same as for large enterprises; SMEs receive preferential treatment
Employment—GRW Program	Red	Green	Red	Advance	Non-repayable cash grant to companies	Up to 15% of eligible costs, depending on region	Up to 35% of eligible costs, depending on region
Training	Red	Green	Red	Advance	Non-repayable cash grant	Varies, depending on program and region. Disbursement on a case-by-case basis	Varies, depending on program and region. Disbursement on a case-by-case basis

Key: Green =Yes Yellow =Limited availability Red =No Grey =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Germany

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Overview

Public incentives for legal entities in Germany are provided by the EU, the German federal government, and the individual federal states.

The total budget of the German federal government for R&D expenditures has risen from EUR 12,765M in 2010 to EUR 17,200M in 2017. The federal funding programs for R&D activities generally run from five to 10 years, with most expiring in 2020.

Public funding is mainly available in the form of application-based, non-repayable cash grants for R&D projects and demonstration projects. Funding is granted for R&D activities, the demonstration of new technology applications, and the development of new business models.

The application for grants is either ongoing or based on specific calls for proposals. For programs with ongoing applications, an early application is advisable, since the annual budget typically is allocated to projects in the first three to six months of the year.

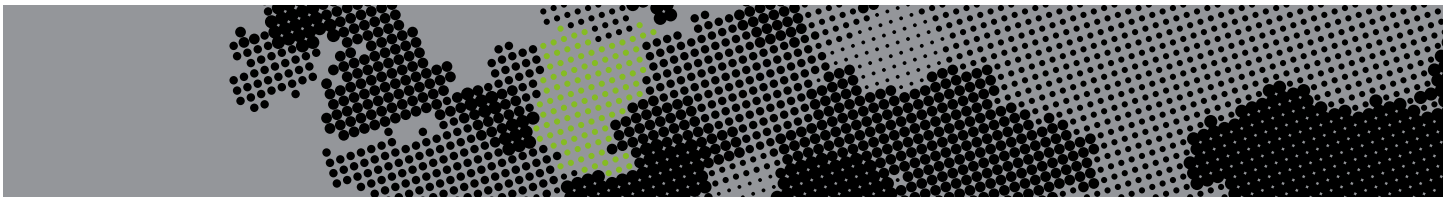
Enterprises located in Germany can apply for R&D grants under several EU programs.

The availability of public grants for investment projects is limited to a few areas, mainly in the eastern part of Germany. Large enterprises are eligible only for initial investments in a region or when the planned investment would lead to a change in the company's NACE[1] code. Nevertheless, investment funding remains of interest to SMEs establishing or extending their premises[2] in the eastern part of Germany. Next to that, there are some non-repayable cash grants for investment measures leading to resource savings which can be applied for either on an ongoing basis or based on specific calls.

The availability of operational incentives for training, recruitment, and wage subsidies is very limited, since the decision is usually based on an individual training/employee decision and, therefore, is not practical for large-scale applications.

Germany is one of the few countries that does not yet offer tax incentives for R&D activities. The political debate about the implementation of such tax incentives, however, has recently gained momentum. With the governmental elections in September 2017 all parties that are in discussion to build the new government have signaled their willingness to introduce tax incentives, enabling companies to deduct personnel costs for R&D activities from the employer's share of the monthly payroll tax. The concrete design of the tax incentive for R&D activities will depend on the coalition negotiations.

1. NACE (Nomenclature of Economic Activities) is the European statistical classification of economic activities. NACE groups organizations according to their business activities.
2. Extending premises can include a physical expanding in terms of property as well as a diversification and expansion of products.



Germany

Grants are offered to encourage investment in innovation, business expansion, environmental sustainability, employment and training.

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Government incentives

Germany offers non-repayable cash grants for R&D and investment projects. The average grant rate is 35%–50% of eligible project costs. Non-repayable cash R&D grants are disbursed for research projects in a wide range of areas, from increasing energy efficiency in the production process to developing new nano-materials. Additionally, investment incentives are available for initial investments.

Innovation

R&D incentives

R&D incentives, only in the form of non-repayable cash grants, are awarded on a "per project" basis, usually for collaborative projects. Qualifying for grants is a competitive process and will be impacted by the availability of funds.

Grant rates average at 35%–50% of eligible project costs, although higher rates may be available for SMEs.

The selection criteria for eligible projects include:

- Extent of innovation level;
- Extent of technical risk;
- Exploitation plan; and
- Positive environmental effects.

Eligibility is not limited to particular industries but most cash grant claims are from companies in the following industries:

- Manufacturing and production processes;
- Automotive and transportation;
- Biotech and life sciences;
- ICT; and
- Energy and utilities.

Qualifying expenditure includes personnel costs, materials, overhead, subcontracting costs, amortization, and travel costs.

Qualifying activities include the following:

- **Industrial research:** Research with a specific practical objective aimed at developing new products, processes, or services, or improving existing ones.
- **Experimental development and demonstration actions:** Demonstration of new applications and/or research results.
- **Development of business models:** Analysis and implementation of innovative (digital) business models.

Targeted R&D grants

Research for energy efficiency—This federal program focuses on R&D activities that increase energy efficiency in the following areas: industrial production, buildings, cities, power supply and storage, or renewable energy. For large enterprises, cash grants are awarded for up to 50% of eligible costs, with a 10% bonus possible for SMEs, depending on the specific call. Applications may be submitted until 31 December 2018.

Industrial resource efficiency—This federal funding program aims to encourage R&D activities in the field of resource efficiency. The program is focused on raw materials, especially technologies allowing for the recovery of raw materials and recycling. Funded projects must develop a prototype and implement a demonstration/pilot. Funding for companies can be up to 25% of eligible project costs. A project outline must be submitted by 17 July 2018.

Digitization and automation of production processes—This innovation area has received considerable attention, with three major framework programs:

- The "Innovation for the production, services and work of tomorrow" program funds the development of digitized production processes that enable customization, resource efficiency, and reliability until 2020. For large enterprises, cash grants are awarded for up to 50% of eligible costs, with a 10% bonus possible for SMEs, depending on the specific call.
- The "Human-Machine Interaction" program funds R&D activities that focus on the interaction between humans and machines, with EUR 70M per year until 2020. For large enterprises, cash grants are awarded for up to 50% of eligible costs, with a 10% bonus possible for SMEs, depending on the specific call.

Germany

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Government incentives (continued)

The application process for all three programs, is based on specific calls for proposals.

Civil security—This federal funding program supports research focusing on solutions to improve the protection of society against threats that may, for example, be triggered by disasters, terrorism, or crimes. A currently open call supports innovative security solutions to increase the resilience of processes and structures in production and logistics, with a focus on areas of a very sensitive nature in the sense of critical infrastructure, e.g., in connection with the transition towards industry and economy 4.0. Submissions in this specific call for proposals can be made until 2 February 2018.

New vehicle technologies—This program offered by the Federal Ministry for Economic Affairs focuses on research on technologies for future vehicles. Core areas are solutions for autonomous vehicles, innovative vehicle concepts, and technologies, as well as drive engineering with respect to efficiency, emissions, and resources. For large companies, cash grants are awarded for up to 50% of eligible costs. Despite that applications may be submitted on an ongoing basis, these applications will be evaluated at two remaining effective dates: 31 March 2018 or 30 September 2018.

Innovations for Hydrogen and Fuel Cells—This program supports industrial research and experimental development in the following sectors: transport, including hydrogen infrastructure; hydrogen production; industrial applications; and special markets for fuel cells. Eligible projects should aim at making the technologies marketable. For large enterprises, cash grants are awarded for up to 50% of eligible costs, with a 10% bonus possible for SMEs, depending on the specific call. The program has been extended to 2019 with a four-year budget of EUR 250M. The submission of applications is ongoing.

SME innovative—The SME programs focus on SME-driven R&D projects in areas such as bio- and nano-technology, production processes, and medical technology. The programs are long-term and the project outlines may be submitted twice a year. For SMEs, cash grants are awarded for up to 60% of eligible costs.

Health—The two framework programs, "Health research" and "Medical technology," support basic R&D projects on diseases and preventive measures, as well as the development of innovative medical technologies. For large companies, cash grants are awarded for up to 50% of eligible costs. Application is based on specific calls for proposals until 2018 and 2026, respectively (three to five calls for proposals are expected for each program per year).

Microelectronics—The framework program supports R&D projects in all types of microelectronic applications (e.g., mobility, energy, industry 4.0) with a total budget of EUR 400M from 2016 to 2020. For large companies, cash grants are awarded for up to 50% of eligible costs. The subprogram, "Photonic research," has an annual budget of EUR 100M and promotes industrial innovation activities in 11 research fields, e.g., bio-photonics, laser technologies, or photonic process chains. Applications for both programs are based on specific calls for proposals. A current call funding innovations in the field of electronics and sensor systems for novel robotics applications is open for application until 15 January 2018 (submission of a project outline is required).

Shipping technologies—The two funding programs, "Innovative Port Technologies" and "Maritime technologies of the next generation," provide funding for innovations in the context of waterway transportation. Applications are based on specific calls for proposals until 2020. For large companies, cash grants are awarded for up to 60% of eligible costs.

IP and jurisdictional restrictions
R&D activities must be conducted in Germany and R&D costs must be incurred in Germany. The exploitation of project results will have to take place in Germany or the EU, with the IP created through the research (initially) remaining in Germany or the EU. Nevertheless, large multinational companies with IP relocated to headquarters outside Germany also may qualify for funding under certain conditions.

Investment

There are investment grants available for initial investments within a privileged region for taxpayers setting up a new plant/business premises or undertaking new activities that lead to a diversification of the assets of an establishment. For large enterprises, the latter requires diversification that leads to a change in the company's NACE code. (See above for additional details.)

Funding is disbursed under investment incentive programs either on the basis of expenditure/value for assets or wage costs:

Assets—Funding disbursed on the basis of asset expenditure/value would include the costs related to the acquisition and production of tangible fixed assets, assets that are hired/leased/rented, the book value of business premises, and the capitalized value of land at market price. This would also include the amount of qualifying expenditure that is capitalized for immaterial assets.

Germany

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Government incentives (continued)

Wages—If funding is disbursed on the basis of wage costs, the gross salary and social security contributions qualify as eligible expenditure.

Targeted Investment grants

GRW Program—The "GRW program" relates to the set-up of business premises and runs until 2020, supporting companies in setting up new plant or business premises in specific structurally weaker regions (mainly in Eastern Germany). The funding in the form of non-repayable cash grants can be applied to the investment costs or the incurred wage costs (see description on employment below). Maximum funding quotas range from up to 15% for large companies (10% from 1 January 2018) and up to 35% for SMEs (30% from 1 January 2018), depending on the region. Higher funding rates may also apply if certain criteria concerning factors such as the establishment of central corporate/business functions at the site, creation of high value adding jobs, concepts for family-friendly work environment/work-life balance or special efforts relating to resource and energy efficiency are met. The funding available for large companies is however limited and special conditions apply.

Environment Innovation Program—In the federal "Environment innovation program," additional investment costs for eco-friendly innovative investments can be funded with non-repayable cash grants or interest-reduced loans. Cash grants are awarded for up of to 30% of eligible costs or interest-reduced loans of up to 70% of eligible costs. The program has no expiration date.

For both investment programs, the submission of applications is ongoing.

Highly efficient cross-sectional technologies—This federal funding program supports investment measures in so called cross-cutting technologies (compressed air systems, electric motors and drives, pumps for industrial use, fans, heat recovery or waste heat systems and insulation of industrial plants or plant parts). Companies may receive funding of up to 20% of eligible costs to replace or purchase a cross-cutting/sectional technology (individual measures) or optimize an existing technical systems by means of one of the cross-cutting technologies. Applications are accepted on an ongoing basis until 31 December 2019 (one step application process).

Acquisition of electric vehicles and charging infrastructure—EUR 300 million funding is available for private investors, cities and municipalities for building a nationwide loading charging infrastructure for electrical vehicles with 15,000 load stations. Application is based on calls with specific deadlines to hand in applications (one-stage). There are also several funding options for cities and communes in acquisition of electric vehicles in a form of funding additions.

Employment

The GRW program relates to the regional support of employment when setting up a business premises and runs through 2020. The funding is in the form of non-repayable cash grants and can be applied to the incurred wage costs that does not exceed the related investment costs of EUR 750K (per newly created job) or EUR 500K (per permanently secured job). Maximum funding quotas range from 10% for large enterprises to 30% for SMEs (funding rates as of January 2018), depending on the region. Nevertheless, the available funding for large companies is limited and special conditions apply.

Further programs are available with funding ratios depending on the region. The disbursement takes place on a case-by-case basis.

Training

In general, the availability of training programs is limited depending on the region. Funding ratios and disbursement of funds is made on a case-by-case basis.

Other

Funded R&D and investment projects may commence only after the cash grant has been awarded to a beneficiary. Cash grants are disbursed after costs have been incurred and claimed with the funding body. Costs incurred in the past (e.g., before the project started) do not qualify as eligible costs.

Cash grants are offered by different ministries based on a range of funding programs. Some grants are ongoing with permanent application deadlines; others are call-based with specific funding topics of interest and specific short-term deadlines (usually about three months after publication of a call for applications). The grants are awarded based on a competitive ranking of projects; thus, the success chances vary from program to program and often cannot not be determined in advance.

The application typically is a two-step process, which includes a submission of project outline, and upon a positive evaluation of the project outline, the submission of a full application. Once a consortium has reached the second step, the likelihood of funding usually increases to over 80%.

Attractive grant programs exist for projects related to energy efficiency, CO_2 reduction, and renewable energy. Improving the energy efficiency of industry, in particular, has become a focus of the authorities, with more funds allocated to projects related to process innovation in those areas.

Greece

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Super deduction	130% super deduction and preferential amortization	130% super deduction and preferential amortization
R&D grant (ESPA 2014–2020)	Yes	No	Yes	Advance	Cash grant	Varies from 25% up to 65% funding	Varies from 35% up to 80% funding
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	Up to 100% funding	Up to 100% funding
Patent box	Yes	No	No	Arrears	Tax deferral	Tax deferral for the first three years of income attributable to qualifying patents	Tax deferral for the first three years of income attributable to qualifying patents
Investment							
CAPEX (Development Law 4399)	Yes	Limited availability	Yes	Advance	Tax exemption, cash grants, employee wage subsidies, and equipment leasing subsidies	Varies from 10% up to 35% of state aid intensity	Varies from 20% up to 55% of state aid intensity
CAPEX (ESPA 2014–2020)	Yes	Limited availability	Yes	Advance	Cash grants	Varies	Varies
Employment	Limited availability	Limited availability	Yes	Advance	Varies (fixed wage subsidy or relief on social security contribution)	Varies	Varies
Training	No	Limited availability	Yes	Advance	Varies (subsidized training courses, training coupons), through certified training centers	Varies	Varies

Key: Yes, Limited availability, No, N/A

Notes:

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Greece

Despite the prolonged fiscal austerity, Greece offers significant innovation and investment incentive opportunities

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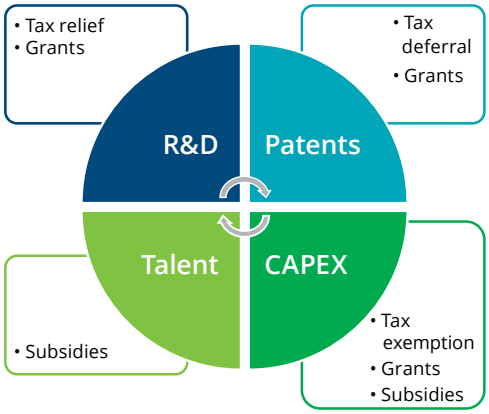
R&D tax incentives

Background

The corporate tax rate in Greece is 29%.

Greece offers a host of incentives aimed at encouraging the growth of R&D-intensive businesses, including super deductions, innovation grants, employment incentives (payroll subsidies), and a patent box. Incentives also are offered to encourage capital expansion and job creation. A joint ministerial decision published on 11 July 2017 updates the definitions and broadens the criteria for R&D expenditure; the new definitions are aligned with the OECD guidelines (Frascati Manual) and apply to costs incurred as from fiscal year 2017.



Nature of incentives

The following tax incentives are available for R&D:

Super deduction and accelerated amortization

Most operating expenses incurred in R&D undertaken in Greece qualify for a 130% super deduction. Moreover, capital expenditure related to R&D (R&D equipment and instruments) will be subject to a three-year accelerated amortization equal to 40% per year, which also is eligible for the 130% super deduction. If the company cannot utilize the tax benefit in the current year, it may be carried forward for five years.

Qualification process

The taxpayer must submit a report to the General Secretariat of Research and Technology (GSRT) specifying the R&D expenses incurred during the fiscal year. The report is due at the time the annual corporate income tax return is filed. The GSRT determines whether the submitted expenses qualify and issues a certificate notifying the taxpayer of the approved R&D expenses within 10 months from submission.

Patent box for income attributable to international patent

The first three years of profits attributable to international patents are not subject to tax. The GSRT is the competent authority for approval of a patent box proposal, following the Patent Office's (OBI) positive recommendation for the validity of the international nature of the patent. The tax for the covered profits is deferred indefinitely, as the payer aggregates the eligible profits in special "tax-free" reserves, which are taxed when used.

Eligible industries and qualifying costs

Eligibility for tax incentives is broad and not limited to particular industries.

Qualified activities for the tax super deduction and accelerated amortization include basic research, applied research and experimental development. The main eligibility criteria are the presence of novelty and the elimination of any scientific/technological uncertainty. Eligible activities include:

Greece

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R&D tax incentives (continued)

- Design and construction of prototypes;
- Construction and operation of pilot projects;
- Industrial design necessary for the implementation of research activities (restrictions apply);
- Industrial engineering;
- Development of prototype and innovative software (restrictions apply); and
- Clinical trials of phases 1, 2 and 3 for new drugs, vaccines and treatments. Clinical trials of Phase 4 should be treated as R&D only if they bring about a further scientific or technological advance.

Eligible expenses that qualify for the super deduction include:

- Tax depreciation costs of buildings/equipment and laboratory instruments;
- Operating expenses;
- Wage costs;
- Travel costs;
- Consumables;
- Specialized scientific software;
- Patent development costs;
- Subscriptions to databases/e-libraries; and
- Contract research (up to 70% of total R&D expenditure).

Contract research may be conducted by private laboratories and enterprises, public research centers and laboratories, and educational institutions.

Super deductions are not available to the extent subsidies fund an expenditure that otherwise may quality for the super deduction.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP, but the company must be a Greek tax paying entity.

There is no specific law requiring that qualified research be conducted in Greece; however, if research is to be conducted outside of Greece, this must be disclosed to the GSRT and could affect whether the GSRT issues a certificate approving the R&D expenses.

Greece

Greece encourages innovation, capital expansion and employment opportunities through a wide range of government incentive programs

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Government incentives

Innovation and Investment

Fast Track Framework—Strategic large-scale projects

The Fast Track Framework is intended to encourage large-scale strategic investment in Greece. Qualifying projects include high-tech and innovation projects with capital expenditure in excess of EUR 100M; projects in excess of EUR 40M that create at least 120 new employment positions; projects creating at least 150 new permanent employment positions; and projects securing at least 600 employment positions. Qualifying projects are provided a host of benefits, including accelerated licensing and permits, special spatial provisions (providing favorable deviations from the applicable building terms and land-use restrictions), special tax regulations, and 10-year EU residence permits.

CAPEX, R&D and Employment

Greece offers two main state aid instruments that are compliant with EU General Block Exemption Regulation 651/2014 (GBER) to private sector companies operating in the Greek territory:

1. The Partnership Agreement for the Development Framework 2014–2020 (known as *ESPA 2014–2020*) provides incentives to the private sector, mainly in the form of grants and is primarily targeted at small and medium-sized enterprises (SMEs). It constitutes the main strategic plan for growth in Greece with the contribution of significant resources exceeding EUR 20B, originating from the European Structural and Investment Funds (ESIF). This program is implemented as a series of funding initiatives, structured in seven sectoral, 13 regional, and six territorial programs. The financing priorities are cross-sectoral and focus on improving business competitiveness, the development of human resources, protecting the environment, modernizing infrastructure, and improving public administration. An example of a new program is the "Research-Create-Innovate," which offers grants ranging from 25% to 100% of eligible expenditure for R&D projects carried out by SMEs, by a consortia of enterprises and research institutions, and by individual enterprises for projects utilizing research findings (patents, IP, publications, etc.) with a sizable budget of EUR 280M. The relevant areas are: multifunctional and advanced materials; cultural and creative industries; agri-food; the environment and sustainable development; life sciences and health/medicine; transport and logistics; energy; information and communications technologies.

   Large enterprises may participate as single entities (for use of research findings) and in consortia.

2. The *Development Law 4399/2016* is a framework for the incentive program establishing eight national state aid schemes for private investments, with an overall budget of EUR 3B in tax exemptions (until 2030) and EUR 480M in cash grants (until 2021), and provides incentives (e.g., tax exemptions, employment subsidies, and cash grants) mainly for CAPEX investments. The minimum budget of an eligible investment plan depends on the size of the beneficiary, i.e., for large enterprises, the minimum budget is EUR 500K. Beneficiaries must contribute capital to the investment plan equal to at least 25% of the eligible investment costs. The beneficiary may receive state aid, ranging from 10% up to 55%[1] of the eligible budget, depending on the size of the beneficiary and on the geographic location of the investment. An eligible investment plan may address any of the following:
   - Setting up a new establishment;
   - Extension of the capacity of an existing establishment;
   - Diversification of the output of an establishment into products not previously produced in the establishment;
   - Fundamental change in the overall production process of an existing establishment; and
   - Acquisition of assets belonging to an establishment that has closed.

Cash grants from the ESPA 2014–2020 framework also are available to eligible R&D projects. The grants are provided via a series of programs that are managed by the GSRT. The benefit can range from 25% up to 80%[2] of eligible expenditure, depending on the size of the beneficiary and the type of expenditure.

1. The range of funding for large companies is 10% to 35% and, for SMEs, 20% to 55% of the eligible investment.
2. The range of funding for large companies is 25% to 65% and, for SMEs, 35% to 80% of the eligible investment.

Hungary

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	No	Arrears	Super deduction, investment tax allowance, and social tax exemptions	Varies	Varies
R&D grant (national)	Limited availability	Limited availability	Yes	Advance	Cash grant with fixed budget and available for certain periods	100% funding	100% funding
R&D grant (EU)	Limited availability	Limited availability	Yes	Advance	Cash grant with fixed budget and available for certain periods	100% funding	100% funding
EKD cash grant (R&D)	Yes	No	No	Advance	Cash grant, open all year with no fixed budget	25% of costs of R&D project, up to EUR 15M	25% of costs of R&D project, up to EUR 15M
Development tax allowance	Yes	No	No	Advance	Tax allowance on corporate income tax payable for R&D capital investment	Tax allowance (50% of qualified investment) is limited to reducing corporate income tax liability of up to 80% of the annual corporate income tax payable	Tax allowance (70% of qualified investment) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable
Patent box	Yes	No	No	Arrears	Tax base reduction	50% of profit related to royalty received may be deductible	50% of profit related to royalty received may be deductible

Key: =Yes =Limited availability =No =N/A

Notes:

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Hungary

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—EKD cash grant	Yes	No	No	Advance	Cash grant for CAPEX investment	50% of CAPEX investment	70% of CAPEX investment
CAPEX—EKD cash grant for technology intensive investments	Yes	No	No	Advance	Cash grant for CAPEX investment. Available based on conditions different from the EKD cash grant	12.5% of CAPEX investment	N/A
CAPEX (Non R&D)—Development tax allowance	Yes	No	No	Advance	Tax allowance on corporate income tax payable for non-R&D capital investment	Tax allowance (50% of qualified investment) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable	Tax allowance (70% of qualified investment) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable
Employment—Development tax allowance	Yes	No	No	Advance	Tax allowance on corporate income tax payable	Tax allowance (50% of 24 months of personnel costs related to new jobs) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable	Tax allowance (70% of 24 months of personnel costs related to new jobs) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable
Employment—Job creation grant	Yes	Limited availability	No	Advance	Cash grant	Up to EUR 3,300/ new jobs created	Up to EUR 3,300/ new jobs created
Environmental sustainability							
Energy efficiency tax allowance	Yes	No	No	Advance	Tax allowance on corporate income tax payable	Tax allowance (30% of qualified investment) is limited to reducing the corporate income tax liability of up to 70% of the corporate income tax payable each year in a six-year period following the end of the investment	Tax allowance (40%–50% of qualified investment) is limited to reducing the corporate income tax liability of up to 70% of the corporate income tax payable each year in a six-year period following the end of the investment

Key: =Yes =Limited availability =No =N/A

Hungary

Hungary provides a 200% super deduction, a patent box, and wage tax relief

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R&D tax incentives

Background

The corporate tax rate in Hungary is 9%. Companies may be subject to other taxes, such as the local business tax (LBT), which is imposed at a maximum rate of 2% of a calculated LBT base (with the precise rate set by each municipality) or the innovation contribution, which is 0.3% of the LBT base.

Nature of incentives

Super deduction

A 200% super deduction is granted for qualifying expenditure if the R&D activities are carried out within the scope of the taxpayer's business activities (i.e., activities performed with the taxpayer's own tools and employees, for its own profit and at its own risk, or contracted by another party) or with respect to cooperative R&D activities conducted under an agreement with a third party.

If the corporate income tax base is negative due to the utilization of the R&D deduction, the taxpayer may elect, in lieu of the income tax benefit, to reduce its social tax payment obligation (provided certain conditions are fulfilled). The deduction is 50% of the potential corporate income tax benefits available, based on the deferred losses created by the deduction of R&D costs.

Any associated entity of the taxpayer may deduct R&D-related expenses from the corporate income tax base. The taxpayer can take the deduction if the associated entity provides the exact deductible amount, as well as a statement that the expenses are directly attributable to the business activities of the associated entity.

Development tax allowance

A tax allowance is available for R&D capital investments exceeding EUR 0.3M. The taxpayer may utilize a pool of up to 50% (for large enterprises) or 70% (for small and medium-sized enterprises (SMEs)) of the R&D investment costs to reduce the corporate income tax liability (up to 80% of the corporate income tax payable annually can be reduced).

LBT base reduction

100% of the R&D costs may be deducted in calculating the LBT base.

LBT (payable) reduction

National law allows local municipalities to provide enterprises with an LBT payable reduction in an amount equal to 10% of the direct costs of basic, applied, or experimental research. The municipalities determine whether this additional benefit is available.

Innovation contribution tax base reduction

All R&D costs may be deducted when calculating the LBT base for the innovation contribution.

Social tax and training fund exemption

Corporations employing researchers with academic degrees or titles are relieved from paying social tax (22% on gross wages) and the training fund contribution (1.5% on gross wages) up to a monthly gross income wage amount of HUF 500K.

Eligible industries and qualifying costs

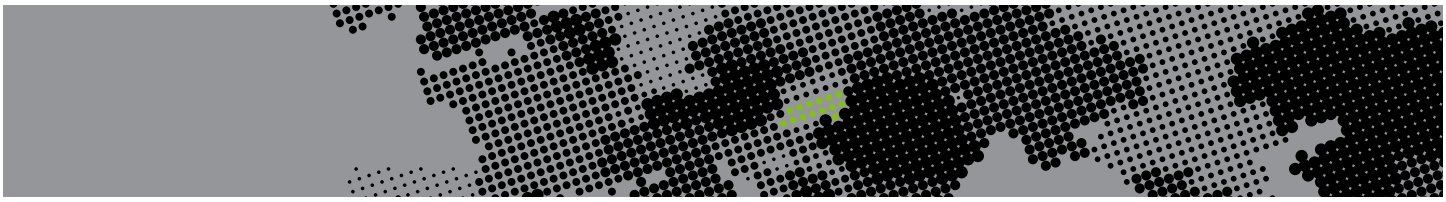
Eligibility is broad and is not limited to particular industries. Qualifying expenditure is defined broadly and includes all direct costs incurred in R&D. Eligible expenditure typically includes:

- Gross wage costs of new or existing R&D staff;
- Costs of new equipment; and
- Costs of certain goods/materials/R&D services purchased from third parties.

IP and jurisdictional restrictions

There is no restriction on the location of IP. Qualified research can be conducted outside of Hungary.

Incentives are available to foreign entities that do not have a permanent establishment in Hungary and subcontract in Hungary. Tax incentives can be claimed by a Hungarian company providing R&D services to a related foreign party.



Hungary

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R&D tax incentives (continued)

Other concerns

R&D benefits may be claimed retroactively, provided the statute of limitations has not expired. An R&D qualification procedure applies to tax benefits and/or R&D cash grants. Under this procedure, the Hungarian Intellectual Property Office (HIPO) determines if the project will qualify as R&D, and this determination is binding on the tax authorities for future projects. A non-binding "expert opinion" of HIPO also may be available with retroactive effect for past projects. Despite its non-binding nature, a positive expert opinion from HIPO may strengthen the R&D nature of past projects in the case of a tax audit. The HIPO has published detailed guidelines that set out the principles for classifying activities for R&D purposes.

A new R&D qualification method is expected to be introduced, under which taxpayers will be able to request the qualification of groups of projects carried out in the same financial year.

Patent box

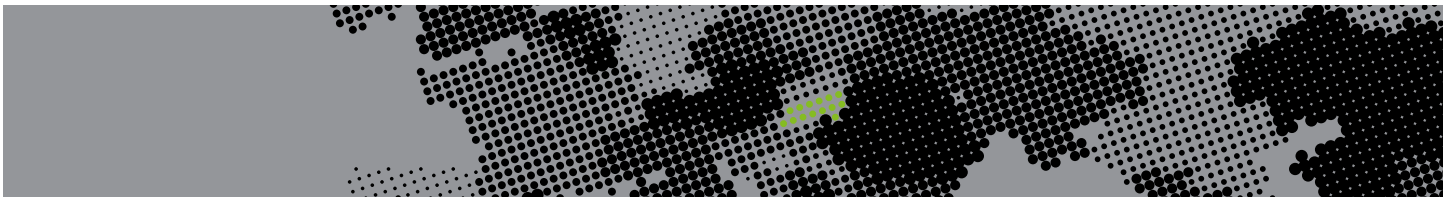
If IP is created as a result of the R&D, the taxpayer may elect to deduct 50% of the profit related to the royalty received (up to 50% of the pretax profit) in calculating its corporate income tax liability.

A tax exemption is available for capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP, provided:

- The company makes an election with the tax authorities within 60 days following the date of the IP acquisition; and
- The company holds the assets for at least one year before any subsequent sale.

Capital losses incurred on the sale of qualifying IP may not be deducted for corporate income tax purposes.

The patent box is available to a wide range of IP. The IP itself does not have to be "new" and may have been generated by another company.



Hungary

Development tax allowances aim to encourage CAPEX and job creation

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Government incentives

Innovation

R&D grants (national and EU) are usual calls with fixed budgets and are available for certain periods. The EKD cash grant is a type of national R&D cash grant.

EKD cash grant (R&D)

Companies with R&D projects exceeding EUR 3M may request this "VIP" cash grant, which may be up to 25% of eligible costs, but the exact amount will be determined by the government. The grant amount is capped at EUR 15M.

Investment

CAPEX—EKD cash grant

Companies with investment projects exceeding EUR 5M up to EUR 20M (depending on the region and the planned project) may request the cash grant, which may be from 50% to 70% of eligible costs. Projects awarded grants under this program also typically receive development tax allowances and/or job creation grants.

CAPEX—EKD cash grant for technology intensive investments

An EKD cash grant is available to fund CAPEX for technology-intensive investments for large companies. The conditions are different from the ordinary EDK cash grant, and the specific awarded amount can be up to 12.5% of investment costs.

CAPEX—Development tax allowance

The tax allowance is limited to qualifying capital investments exceeding a higher threshold which can range from EUR 3M to 10M depending on the region. Once the project is finalized, the taxpayer may utilize an expenditure pool of up to 50% (for large companies) or 70% (for SMEs) of the investment costs to reduce its corporate income tax liability (up to 80% of the payable corporate income tax annually).

Employment—Development tax allowance

A tax allowance is available for job creation projects. There is no minimum headcount increase (it may be utilized for any number of new jobs created). Once the project is finalized, the taxpayer may utilize an expenditure pool of up to 50% (for large enterprises) or 70% (for SMEs) of personnel costs of the new employees for 24 months to reduce its corporate income tax liability (up to 80% of the payable corporate income tax annually).

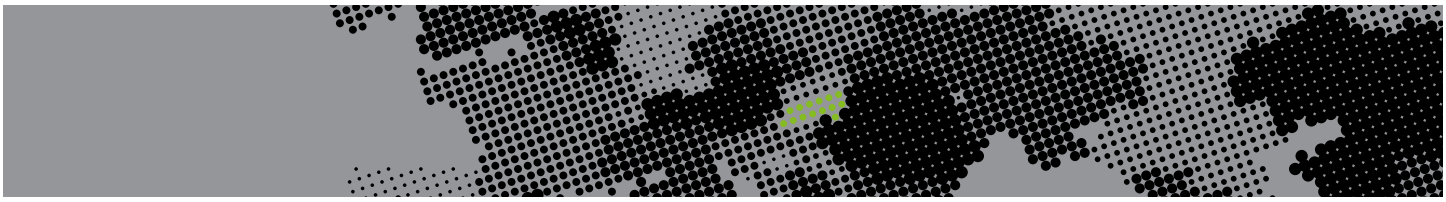
Employment—Job Creation Grant

The job creation grant is available in certain regions for projects also awarded with an EKD cash grant. The grant amount is based on negotiation; however, the amount usually is around HUF 1M (EUR 3,300) per new job created. The grant is available only for investments creating at least 250 new jobs.

Environmental sustainability

Energy efficiency tax allowance

The energy efficiency tax allowance is available for energy efficiency-related investments (i.e., investments aiming at the reduction of final energy consumption). The taxpayer may utilize an expenditure pool of up to 30% (for large companies) or 40%-50% (for SMEs) of the investment costs to reduce its corporate income tax liability (up to 70% of the payable corporate income tax). The maximum amount of the tax allowance is EUR 15M for each project.



Iceland

Overview

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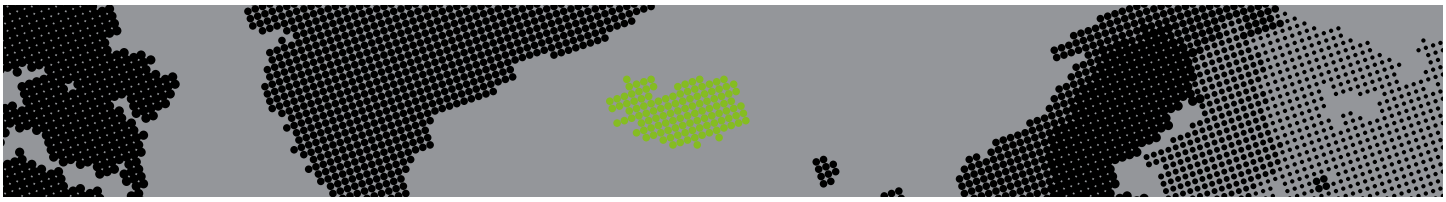
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Advance	Tax credit	20% of qualified research expenses (subject to certain limitations)	20% of qualified research expenses (subject to certain limitations)
R&D grant (national)	Yes	Limited availability	Yes	Advance	Cash grant	Varies depending on grant	Varies depending on grant
R&D grant (EU)	Limited availability	No	Yes	Advance	Cash grant	Varies depending on EU grant	Varies depending on EU grant
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Tax exemption for foreign specialists	Yes	No	Yes	Arrears	Personal tax exemption	25% of foreign expert salary income is exempt from income tax	25% of foreign expert salary income is exempt from income tax
Investment							
Incentives for new investments in Iceland	Yes	No	No	Advance	Various tax incentives (e.g., lower corporate income tax, lower real estate tax, and/or lower social security contributions)	15% of investment costs	25% of investment costs for medium-sized companies and 35% for small companies

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



Iceland

Iceland offers a 20% volume-based tax credit in addition to other subsidies for funding R&D

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R&D tax incentives

Background

The corporate tax rate in Iceland ranges from 20% to 36%, depending on the company form. The most prevalent form of company is the limited liability (Ltd) company that is subject to the 20% tax rate.

Nature of incentives

Legislation supporting innovation companies became effective on 1 January 2010. "Innovation companies" are defined as legal entities that conduct research or development. The R&D incentive regime, therefore, distinguishes between activities undertaken for research purposes and those undertaken for development. "Qualifying projects" are projects undertaken to provide new knowledge or competence that is considered to be beneficial to the company in developing new or improved products, services, or processes.

Tax credits are granted and vary depending on the size of the company. Companies are considered to be small, medium, or large based on the EU definitions referenced below. The controlled group concept is considered in applying these definitions.

In general, innovation companies that have approved R&D projects qualify for a tax credit equal to 20% of qualified costs. Qualified costs are those incurred to complete qualified projects, but the costs also must qualify as a deductible operating expense in accordance with the tax legislation. Furthermore, there is an annual ceiling on total qualified R&D costs of approximately EUR 25M[1]; however, the cap is approximately EUR 37M for R&D services provided by a contractor and for cooperative projects (discussed below).

If the tax credit exceeds the income tax liability in the relevant fiscal year, the unutilized portion can be paid out by the Treasury in the following fiscal year.

Limits are imposed on the total government subsidy amount, including the tax incentives, for each project, based on the size of the company. Other government subsidies include grants provided by public institutions, e.g., innovation grants from the Centre for Research ("Rannís"), ranging from approximately EUR 2,500 to EUR 300K.

For "small companies," which includes companies with fewer than 50 employees and annual revenue below EUR 10M and/or a balance sheet below EUR 10M, the subsidies are limited as follows:

- The total subsidy can be up to 70% of eligible research costs or 80% if it is a cooperative project; and
- The total subsidy can be up to 45% of eligible development costs or 60% if it is a cooperative project.

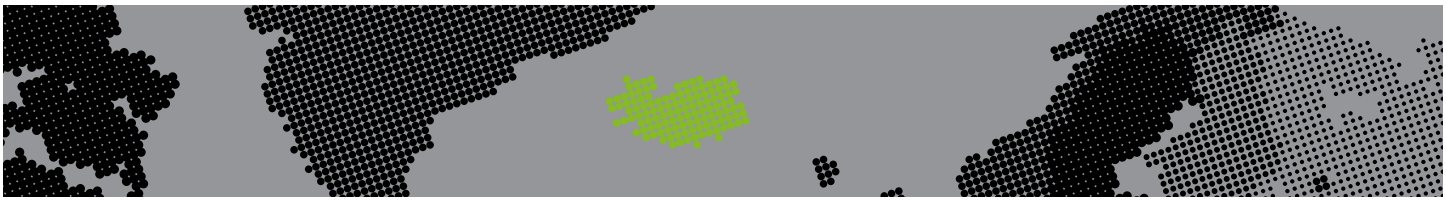
For "medium-sized companies," which includes companies with 50 to 250 employees and annual revenue below EUR 10M and/or a balance sheet below EUR 43M, the subsidies are limited as follows:

- The total subsidy can be up to 60% of eligible research costs or 75% if it is a cooperative project; and
- The total subsidy can be up to 35% of eligible development costs or 50% if it is a cooperative project.

For "large companies," which are companies that are larger than those companies that fall within the definition of "medium-sized companies," the subsidies are limited as follows:

- The total subsidy can be up to 50% of eligible research costs or 65% if it is a cooperative project; and
- The total subsidy can be up to 25% of eligible development costs or 40% if it is a cooperative project.

1. All caps and other limitations have been converted from Icelandic currency, Icelandic Króna (ISK) to Euros.



Iceland

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R&D tax incentives (continued)

Cooperative projects are subject to many requirements, including that the project be undertaken within the EU with at least one SME. Moreover, significant research projects can qualify for additional credits, e.g., if the research results are presented at a technical or scientific conference or are published.

There also are measures that provide financing and grants to support the operations of innovation companies and small growth companies.

Eligible industries and qualifying costs

The Research Centre of Iceland must approve research or development projects to qualify for the research credit. The following criteria must be fulfilled to receive approval:

- The research or development is intended to generate company profits based on a well- organized business plan;
- The company spends at least about EUR 82K on research or development during each 12-month period; and
- The researchers or developers have appropriate training, education, or experience with regard to the subject matter of the research or development.

The following costs are eligible for the R&D tax credit:

- Employee wages/salaries;
- Tools and equipment used in the qualifying R&D project;
- Buildings and land to the extent and for the period it is used for the R&D project;
- Contractor and consultant costs; and
- Other direct and operational costs, including the cost of materials and inventory used in the research effort.

R&D costs must be separate from the company's other expenses and specifically accounted for in the tax return for the relevant fiscal year.

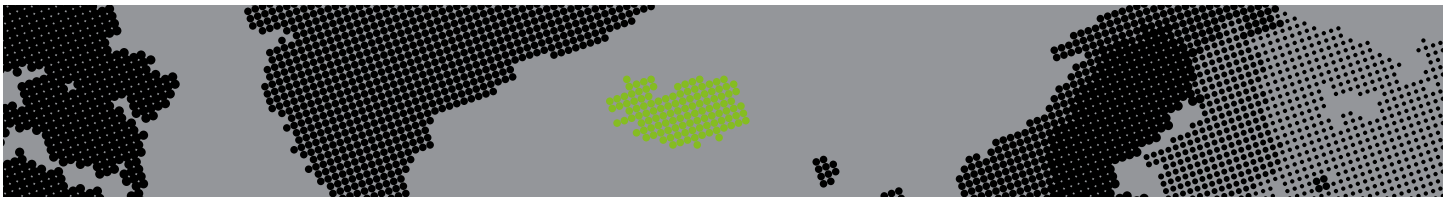
IP and jurisdictional restrictions

IP ownership in Iceland is not required and there are no restrictions, other than for cooperative projects, as noted above, on the location of the research activities.

Other concerns

To obtain project approval, an application must be submitted before 1 September each year and a renewal application must be submitted annually before 1 April.

The decision on whether a project is approved will be made within two months of submission and is valid for the current income year.



Iceland

To encourage foreign specialists to consider employment in Iceland, 25% of compensation is exempt from income tax

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Government incentives

Innovation

R&D grants

The Technology Development Fund (TDF) is the largest of source of R&D grants in Iceland. The TDF is a competitive fund that issues calls for proposals twice a year for six types of grants: growth, start-up, marketing, research, seed, and patent grant. These grants range from approximately EUR 1,500 up to EUR 200K, with a term of up to three years.

Foreign experts

A new foreign expert incentive that applies as from 1 January 2017 is designed to support innovation companies and other fast growing companies. Under this incentive, foreign specialists are taxable only on 75% of their earnings for the first three years of employment in Iceland, provided the following requirements are met:

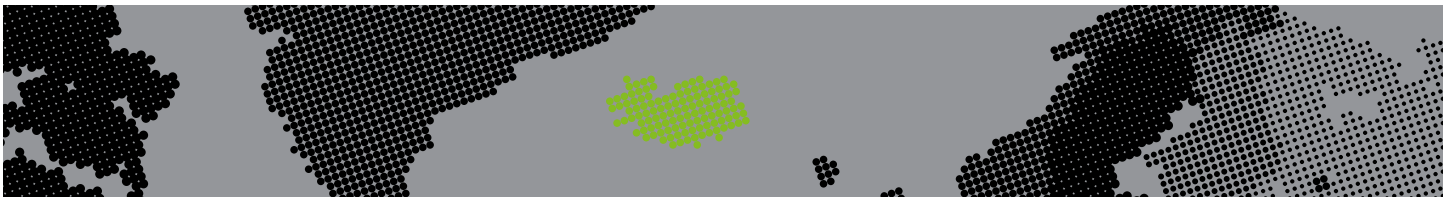
- The foreign expert is employed by a legal entity that is resident in Iceland and that entity pays the expert's salary, or the entity is a permanent establishment of a foreign entity.
- The foreign expert has not been resident in Iceland in the five-year period before the calendar year in which the expert commenced his/her employment in Iceland.
- The foreign expert possesses knowledge that only a limited number of resident experts possess.

An application for this exemption must be submitted to a special committee that determines whether the foreign expert has met all the requirements. Even if the exemption is granted, social security and pension contributions must be paid on the total salary amount.

Investment

Incentives for new investments in Iceland

Iceland has a framework law that provides incentives for new investments in the country with the objective of enhancing Iceland's competitiveness and promoting regional development. The law contains various requirements that must be met, and a special ministerial committee is responsible for evaluating all applications. If all requirements are met, the company is offered an investment agreement with the state that includes tax incentives based on the type and size of the investment (e.g., a lower corporate income tax, lower real estate tax, and/or lower social security contributions). The incentives cannot exceed 35% of the investment costs (for a small enterprise), 25% of the investment costs (for a medium-sized enterprise), or 15% of the investment costs (for a large enterprise). If the investment costs exceed EUR 100M, the cap on the incentives is further reduced to 5.1% of the investment costs.



India

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Super deduction	15% of qualified research expenses	15% of qualified research expenses
R&D grant (national)	No	Yes	Yes	Advance	Nonrefundable and refundable grants	Varies depending on the nature of the grant and the region. State incentives generally are in the form of an exemption from duties and taxes	Varies depending on the nature of the grant and the region. State incentives generally are in the form of an exemption from duties and taxes
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	Yes	No	Yes	Arrears	Lower tax rate for royalty income of an Indian resident that is inventor of a patent that is developed and registered in India	Tax rate reduced to 10%	Tax rate reduced to 10%
Investment							
CAPEX—Tax incentives for units in the northeastern region	No	Yes	Yes	Advance	Tax exemption	100% deduction of profits for 10 consecutive years	100% deduction of profits for 10 consecutive years
CAPEX—Other state incentives	Limited availability	Limited availability	Yes	Advance	Grants and tax exemptions/ concessions	Varies	Varies
CAPEX—Tax incentives for infrastructure development undertakings	Yes	Yes	Yes	Arrears	Tax exemption/ Deduction	100% tax exemption	100% tax exemption

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

India

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
CAPEX—Modified special incentive package scheme (M-SIPS)	Yes	Yes	Yes	Advance	Grants/Subsidies	Varies	Varies
Employment—Tax incentive for hiring new personnel	Limited availability	Limited availability	Yes	Arrears	Grants and tax exemptions/ concessions	Super deduction of 30% of additional wages paid to factory workers for three years	Super deduction of 30% of additional wages paid to factory workers for three years
Training—Tax incentives for expenditure incurred on skill development projects	Yes	No	Yes	Arrears	Super deduction	150% of qualified expenditure incurred on skill development projects	150% of qualified expenditure incurred on skill development projects
Other							
CAPEX—Tax incentives for expenditure incurred on agriculture extension projects	Limited availability	Limited availability	Yes	Arrears	Super deduction	150% of qualified expenditure incurred on agriculture extension projects	150% of qualified expenditure incurred on agriculture extension projects
Tax incentives for exports	Yes	Yes	Yes	Arrears	Tax exemption	100% tax exemption	100% tax exemption

Key: =Yes =Limited availability =No =N/A

India

India offers a 150% super deduction, as well as a patent box on royalties

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R&D tax incentives

Background

The corporate tax rate in India is 30% (plus a surcharge and education cess).[1]

Nature of incentives

The incentives for conducting R&D include the following:

- A super deduction of 150% (reduced from 200% on 1 April 2017) is available for in-house R&D expenditure, including capital expenditure (other than land and buildings), incurred during the period 1 April 2017 to 31 March 2020. The super deduction is restricted to taxpayers engaged in the business of bio-technology or manufacturing or producing products (other than products included on the "negative list"). The facility where is the R&D is conducted must be approved by the Department of Scientific and Industrial Research (DSIR) for a company to qualify for the super deduction.
- A super deduction of 100% (reduced from 125%) is available as from 1 April 2017 for specified payments made to a scientific research company or association, university/college, or other institution for scientific and statistical research.
- A super deduction of 150% (reduced from 175% on 1 April 2017) is available for specified payments made to certain scientific research associations, approved universities, colleges, or other institutions. The super deduction will be eliminated as from 1 April 2020.
- A 100% deduction is available for R&D expenses (other than land) that otherwise do not qualify for the above super deductions.

A number of requirements must be met for expenditure incurred on in-house R&D to qualify for the super deduction, including the following:

- The R&D unit must be located in a specified area;
- The R&D unit must have its own personnel;
- The qualifying R&D expenses may not be deductible under any other provision of the tax code;
- The R&D facility may not be used exclusively for market research, sales promotion, quality control, testing, commercial production, style changes, routine data collection, or similar activities;
- The company must maintain a separate account for each approved facility, which must be audited annually, and a copy of the audit report must be submitted to the Secretary of the DSIR by 30 November of each year;
- Assets acquired with respect to the development of scientific R&D facilities may not be disposed of without the approval of the Secretary of the DSIR.

Eligible industries and qualifying costs

Qualifying expenditure includes wages, supplies, utilities, and other expenses directly related to R&D. Specifically excluded expenses include general and administrative costs, depreciation, overhead, and allocated expenditure.

A deduction for R&D expenditure is net of any grants/gifts, donations, payments, or gains derived from the sale of R&D assets.

Expenses incurred in clinical drug trials qualify for research tax incentives only if pre-approved by the regulatory authority under a central, state, or provincial act, and a patent application is filed under the Patents Act (1970) for the new drug/therapy developed through the clinical trials.

IP and jurisdictional restrictions

R&D activities must be conducted in India. There is no location restriction with respect to IP.

Other concerns

If the taxpayer is in a loss situation, unused benefits may be carried forward for the following eight years, but cannot be carried back.

Patent box

As from tax year 2016–2017, royalty income of an Indian resident that owns a patent that was developed and registered in India is taxed at a rate of 10% (plus the applicable surcharge and cess) on a gross basis.

1. Based on a proposal, the corporate tax rate may be reduced to 25% (plus the applicable surcharge and education cess) for: (i) Indian companies whose total sales or gross receipts do not exceed INR 500M during the tax year 2015-16; and (ii) newly incorporated (i.e., on or after 1 March 2016) manufacturing companies that do not claim any income tax incentives or exemptions.

India

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Many government incentives are designed to expand and attract manufacturing operations

Government incentives

To attract new investment, develop infrastructure, and promote industries, India offers various incentives such as tax holidays, investment allowances, rebates, etc. Incentives generally fall into the following categories:

Location-based	Activity-based	Export-based	Industry-based
• Tax holiday in specified locations • State level incentives	• Investment allowance • Skills development • Exports from SEZ units • Various indirect tax benefits	• SEZ units • Employment of new personnel	• Infrastructure and power facilities • M-SIPS, etc.

Location-based

CAPEX—Tax exemption for units in North Eastern Region of India

Tax benefits are available for setting up undertaking/manufacturing facilities in the northeastern states of India. No area restrictions are applicable, i.e., an undertaking can be set up anywhere in the specified regions. Undertakings located in these states that (i) begin to manufacture or produce an eligible item, (ii) undertake substantial expansion, or (iii) commence a qualifying business between 1 April 2007 and 1 April 2017 are eligible for a 100% deduction of profits for 10 consecutive years (benefits are not available if operations commence after 1 April 2017).

CAPEX—Other state level incentives

To encourage the industrialization of certain states, the following incentives are offered:

- Stamp duty reimbursement;
- Land cost rebates;
- Land conversion cost;
- Power cost reimbursement;
- VAT reimbursement; and
- Infrastructure development cost reimbursement.

Activity-based

Training—Tax incentives for expenditure incurred on skill development projects

Companies engaged in manufacturing and production (other than the production of alcoholic spirits and tobacco products) or providing specific services (such as construction, healthcare, market research, etc.) are allowed a weighted deduction of 150% of expenditure (other than expenditure incurred on land and buildings) incurred in skills development projects, provided certain conditions are fulfilled. A 150% deduction of qualified costs incurred to develop the targeted skills is available until 31 March 2020; the deduction then reduces to 100%.

CAPEX—Tax incentives for expenditure incurred on agriculture extension projects

A deduction of 150% of expenditure incurred by a taxpayer on agricultural extension projects is allowed if certain conditions are fulfilled. The 150% deduction is available until 31 March 2020; it then reduces to 100%.

Export-based

Tax incentives for exports

Provided certain conditions are fulfilled, export profits earned from a new undertaking set up in an SEZ are eligible for a 100% tax exemption for the first five years, starting from the year manufacturing commences, followed by a 50% tax exemption for

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Government incentives (continued)

the following five years. A further five-year tax exemption of 50% of the export profits then is available, subject to an equal amount of profit being retained and transferred to a special reserve. During the exemption period, the minimum alternate tax must be paid, for which a credit is available.

Employment—Tax incentive for hiring new personnel
To encourage the hiring of new employees, a deduction of 30% of additional wages paid to new regular employees in a factory is allowed for three years. This super deduction applies to taxpayers in all sectors (that are subject to tax audit) to the extent the costs are incurred on an employee with total remuneration of up to INR 25K, and the employee has been employed for at least 240 days.

Industry-specific

CAPEX—Tax incentives for infrastructure development undertakings
A tax holiday of 100% of profits for 10 of the first 15 consecutive years is available to enterprises engaged in the business of power generation, transmission, or distribution; developing or operating and maintaining a notified infrastructure facility, industrial park, or SEZ; substantially renovating and modernizing the existing network of transmission or distribution lines (between specified periods); or laying and operating a cross-country natural gas distribution network.[2] To qualify for the tax holiday, operations must commence on or before 31 March 2017; as from 1 April 2017, a deduction of 100% of capital expenditure incurred on setting up the infrastructure facility[3] is available.

CAPEX—Modified Special Incentive Package Scheme (M-SIPS)
Special incentives are designed to encourage investment in the electronics systems design and manufacturing (ESDM) sector. These incentives apply to existing manufacturers and service providers in the sector, and the investment must relate to listed products covered under M-SIPS regime. There are investment thresholds applicable to different categories. The application must be sent by 26 July 2020 for the applicant to benefit from the incentives. Incentives are provided by way of a capital subsidy to units engaged in the manufacturing of electronics.

2. The tax holiday is available for 10 of the first 20 consecutive years in the case of infrastructure projects, except for ports, airports, inland waterways, water supply projects, and navigational channels to the sea.
3. "Infrastructure facility" means (a) a road, including a toll road, bridge, or rail system; (b) a highway project, including housing or other activities that are an integral part of the highway project; (c) a water supply project, water treatment system, irrigation project, sanitation and sewerage system, or solid waste management system; or (d) a port, airport, or inland waterway project.

Ireland

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Tax credit	25% of qualifying R&D expenses	25% of qualifying R&D expenses
R&D grant (national)	Yes	No	No	Advance	Cash grant	25% of qualifying costs	25% of qualifying costs
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	Percentage of project costs that can be funded by grant varies depending on scheme (Horizon 2020, Eurostars, etc.)	Percentage of project costs that can be funded by grant varies depending on scheme (Horizon 2020, Eurostars, etc.)
Patent box	Yes	No	Yes	Arrears	Tax rate reduction	50% reduction in corporation tax rate	50% reduction in corporation tax rate
Investment							
CAPEX	Limited	No	No	Advance	Cash grant	Maximum of: • 10% for first EUR 50M of investment • 5% for next EUR 50M • <5% for investment above first EUR 100M	Maximum of: • 10% for first EUR 50M of investment • 5% for next EUR 50M • <5% for investment above first EUR 100M
Employment	Limited	No	No	Advance	Cash grant	Maximum grant of 15% of two years salary per new role created	Maximum grant of 15% of two years salary per new role created
Training	Yes	No	No	Advance	Cash grant	EUR 2M	EUR 2M
Environmental sustainability							
Environmental sustainability	Yes	No	Yes	Arrears	Capital allowance for items on the government's list of low-energy equipment (Sustainable Energy Authority of Ireland)	Capital allowance against taxable profits for 100% of cost of equipment in year equipment comes into use (and is added to asset register)	Capital allowance against taxable profits for 100% of cost of equipment in year equipment comes into use (and is added to asset register)

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Ireland

Ireland's R&D tax incentives are unique in that they may be surrendered to key R&D employees to use against their personal income tax liability if certain requirements are met

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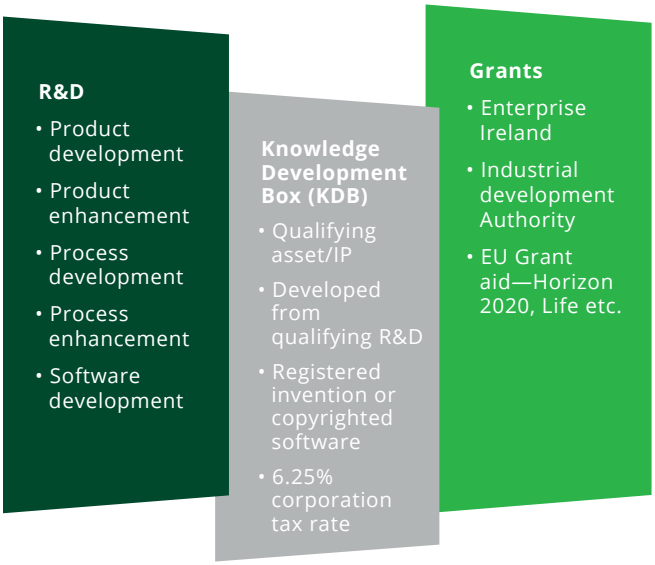
R&D tax incentives

Background

Ireland's incentive schemes are focused on continuing economic development and providing an exceptional business environment for both local and foreign direct investment companies.

R&D incentives are designed to support companies throughout the life cycle of the R&D activities, with grant support available before the company commits to the project and tax credits available within 12 months of the activities taking place. Additionally, a knowledge development box (KDB) provides a lower tax rate on the income generated after the R&D project has ended and the IP resulting from qualifying R&D is in service.

The general corporate tax rate is 12.5%, and the government has confirmed that it is committed to maintaining this rate.



Nature of incentives

Deduction

R&D expenses are deductible in the year in which the expenses are incurred.

Volume-based credit

A 25% volume-based credit is available on all qualifying R&D expenses.

R&D facilities credit

A 25% credit is available for expenditure incurred on constructing or refurbishing buildings or structures used in the conduct of qualified R&D activities (provided at least 35% of the building is used for qualifying R&D over a four-year period). There is no base calculation for the buildings credit.

Surrendering of credits

Credits may be surrendered to key R&D employees to use against their personal income tax liability. A number of restrictions apply, including that the individual cannot be a director (or be connected to a director) or have a material interest in the company, and the tax credit cannot result in the recipient's tax rate going below 23%.

Unused credits may be carried back to reduce the tax liability of the preceding accounting period. If the credit is not fully utilized in the current and preceding tax periods, the excess may be carried forward indefinitely or refunded to the taxpayer through payments from the Revenue Commissioners (the refund is paid in installments over a three-year period).

Credit refunds are limited to the greater of:

- The total corporation tax paid by the company for the 10 years before the period for which the company is making the claim; and
- The payroll tax liabilities for the specific period in which the qualifying expenditure was incurred, plus the payroll tax liabilities of the immediately preceding accounting period, subject to certain restrictions relating to refunds in prior years.

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R&D tax incentives (continued)

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. R&D activities mean systematic, investigative, or experimental activities in a field of science or technology that include basic research, applied research, and experimental development. Four categories of activity generally qualify for the credit:

1. Natural sciences;
2. Engineering and technology;
3. Medical science: basic medicine, clinical medicine, or health sciences; and
4. Agricultural sciences.

Qualifying expenditure includes royalties, expenses deductible for trading purposes (wages and supplies), plant and machinery entitled to capital allowances, revenue and capital expenditure on scientific research, and buildings subject to capital allowances. A fee paid to a contractor to perform research on the taxpayer's behalf is qualified research expenditure if the contractor is not related to the taxpayer. Fees paid to third-party contractors are limited to the greater of EUR 100K or 15% of the total qualifying research expenditure. Where the R&D activities are contracted to a university or research institution, the limit is the greater of EUR 100K or 5% of the total qualified research expenditure. Payments made to connected parties within the same group of companies may not be claimed (unless purchasing materials or equipment). If an Irish company performs research for other unrelated companies for a fee, the company performing the research is permitted to claim the credit, as long as the company providing the funding is not claiming the credit.

IP and jurisdictional restrictions

R&D activities must take place within Ireland or the EEA. The credit is denied when the activities occur in an EEA country where a corresponding tax deduction for such expenditure is permitted.

A stamp duty exemption is available for certain IP.

Other concerns

Credit must be claimed within 12 months after the end of the accounting period in which the expenditure was incurred. All credits are computed on a group basis.

Patent box

Ireland's KDB is effective for tax years commencing on or after 1 January 2016. The KDB reduces the tax rate on the profits earned by the Irish resident company performing the R&D (as per the definitions of R&D in the R&D tax credit legislation) that is attributable to the invention to 6.25% (compared to the standard 12.5% corporation tax rate). The scheme is compliant with the OECD modified nexus approach.

IP assets do not have to reside in Ireland, but the Irish entity claiming KDB must have the right to earn income from the asset and the asset must be a patented invention or a computer program protected by copyright. The scheme requires companies to maintain documentation supporting the nature of R&D, the qualifying R&D expenditure, the additional expenditure incurred in developing the IP asset, and how the profits relating to the IP asset have been identified and captured.

Ireland

Ireland provides grants for funding R&D, as well as subsidizing CAPEX, new employment, and training programs

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Government incentives

Investment

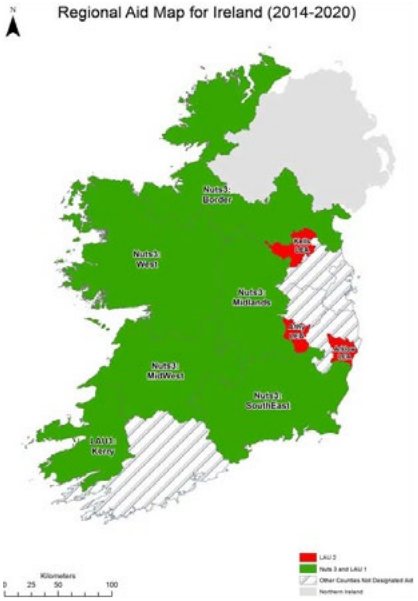
Grant aid in Ireland

There are two state agencies in Ireland, the Industrial Development Authority (IDA), and Enterprise Ireland (EI).

Enterprise Ireland (EI) is the state agency responsible for supporting the development of indigenous companies. It can assist with the following:

- High potential start-ups;
- Established SMEs (i.e., more than 10 employees) and
- Large company (i.e., more than 250 employees) funding.

Enterprise Ireland's grant programs cover R&D, market research assistance and internationalization support, as well as employee growth and company expansion packages.



Industrial Development Authority (IDA) provides support and grant aid to foreign companies locating or expanding their operations in Ireland.

The funding available includes RD&I grants, employment and business expansion grants, and capital investment grants.

EI and IDA capital and employment grants generally are limited to areas outside the main populations. The applicable areas for capital grants are known as the BMW region, or "Border, Midlands, West" and are shown in the map below as the green and recently added red areas, which are commuter belt populations of the greater Dublin area.

R&D grants

As noted above, Ireland has two grant awarding bodies, EI to support indigenous companies and the IDA for foreign direct investment. Projects must address technological challenges and have an expectation of commercialization. Additional considerations for IDA grants are the creation of long-term employment and, for EI grants, the export potential. Grant awards are not industry or geographically specific. Both awarding bodies require that applications be made in advance of the project being initiated in Ireland. Grants provide maximum support of 25% of qualifying costs. Expenditure supported by R&D grants includes staff costs (base salary only), consultancy, materials, travel and subsistence, and equipment (CAPEX). Overhead costs are not included on an incurred basis, but are accounted for through a 30% uplift on qualifying staff costs.

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Government incentives (continued)

R&D grants (EU)
Companies in Ireland are able to apply for all EU-wide technology grant schemes, such as Horizon 2020, LIFE (limited), and Eurostars. Application calls are made to regular timeframes, and deadlines apply to each call. European grants commonly are industry-specific or targeted at environmental improvements.

Capital grants
Grants are awarded to subsidize expenditure on the purchase of land, buildings, and new plant and equipment. The scheme is restricted to companies in the BMW regions of Ireland. The grants are not industry-specific or linked with a requirement to be performing R&D (though R&D capital investment also can qualify) and are subject to EU regulations on the levels of awards and approvals. Grants are subject to a maximum award of:

- 10% for first EUR 50M of investment;
- 5% for next EUR 50M; and
- Less than 5% for investment above EUR 100M.

Investment

Employment grants
Employment grants are offered on up to 15% of a new employee's salary, for a maximum of two years. The scheme is restricted to companies in the BMW regions. The grants are not industry-specific or linked with a requirement to be performing R&D and are subject to EU regulations on the levels of awards and approvals.

Training grants
Training grants are awarded by the IDA and EI up to a value of EUR 2M (over the life of a project) to assist in training and providing skills to a workforce. A maximum of 50% is available for such grants, without a geographical restriction. The grants are subject to EU limits.

A maximum grant rate of 20% of costs is available for specific training (e.g., in a technology area) and 50% for general training. A combination of specific and general training is allowable. An overall maximum award of EUR 2M is in place.

Environmental sustainability

100% capital allowances are available for low-energy-consuming plant and machinery. The full allowance can be claimed against taxable profits in the year the equipment comes into use. Claims are made in arrears via the corporation tax return; however, only equipment that is included on the list maintained by the Sustainable Energy Authority of Ireland (SEAI), at the time of purchase, are eligible for the incentive. Applications can be submitted to add equipment to the list (twice a year), by the manufacturer or a licensed agent in Ireland.

Israel

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	No	Arrears	Lower tax rates under alternative tax program and strategic program (additional benefits for companies located in priority areas)	Corporate tax rate of 5% or 8%, depending on location of the company	Corporate tax rates of 7.5% or 16%, depending on location of the company
R&D grant (national)	Yes	Yes	Yes	Advance	Financial grants for R&D projects must be repaid with royalties from future related revenue if project is successful	Varies, but can be as high as 75% of qualified research expenses	Varies, but can be as high as 85% of qualified research expenses
R&D grant (EU)	Yes	No	Yes	Advance	Financial grants for R&D projects	Generally 70% or 100% funding for qualified expenses, plus 25% of overhead	Generally 70% or 100% funding for qualified expenses, plus 25% of overhead
Patent box	Yes	Yes	No	Arrears	Lower tax rates on the sale of an intangible asset to a foreign related corporation	Tax rate of 6%	Tax rates of 12%
Investment							
CAPEX	Limited availability	Yes	No	Advance	Financial grants for establishing or expanding productive activity	20% of actual investment, 30% for companies located in south of Israel	20% of actual investment, 30% for companies located in south of Israel
Employment	Yes	Yes	Yes	Advance	Financial grants for recruiting new employees with high salary	Varies, but generally is between ILS 20K and ILS 30K of salary costs	Varies, but generally is between ILS 20K and ILS 30K of salary costs
Training	Yes	No	No	Advance	Financial grants for training new employees	Up to ILS 18K per employee	Up to ILS 18K per employee

Key: =Yes =Limited availability =No =N/A

Notes:

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2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Israel

In Israel, industrial companies located in priority areas may be entitled to tax benefits and grant incentives

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R&D tax incentives

Background

Israel's corporate tax rate currently is 24%, and the withholding tax rate on dividends is 25% or 33%.

The Innovation Authority (formerly known as the Office of the Chief Scientist of the Ministry of Economy, or OCS) implements the government's policy to encourage and support industrial R&D that is likely to lead to new export products and international commerce. Incentives may be available if an applicant is approved by the Innovation Authority and meets "disruptive technology" innovation standards, has proven technological and management skills, and intends to implement the project in Israel (unless otherwise exempted by the Innovation Authority).

Nature of incentives

Preferred technology enterprise

Tax benefits are granted to industrial companies (including software companies) that export more than 25% of their total turnover to a market larger than 14 million persons. A corporate tax rate of 7.5% applies to companies located in "Priority Area A," and a 16% applies to companies located in other areas. If the company pays dividends during a tax year in which the full exemption is available, the dividends are taxed at a rate of 20% and any exempted taxes become immediately payable. The capital gains tax on the sale of an intangible asset to a foreign related corporation is reduced to 12% if the asset has been acquired from a foreign corporation for at least ILS 200M.

Special preferred technology enterprise

The special preferred technology enterprise program is intended for multinational companies whose annual gross receipts exceed ILS 10B, and whose exports exceed 25% of its revenues. Companies that qualify under this program benefit from a reduced corporate tax rate of 6%. The capital gains tax on the sale of an intangible asset to a foreign related corporation is reduced to 6% if the asset has been acquired from a foreign corporation or developed in-house.

Angel investors

A tax benefit is granted to individuals investing in qualified Israeli R&D companies, allowing them to deduct their investment from any other source of income. The amount of the deduction is capped at ILS 5M per investor, per eligible company.

Eligible industries and qualifying costs

To qualify under the Preferred Technology Enterprise and the Special Preferred Technology Enterprise regimes, the enterprise must either:

- Receive approval from the National Authority for Technological Innovation that it is promoting innovation according to the definition; or
- Incur R&D expenditure that is not less than 7% of revenues or exceeding ILS 75M.

In addition, one of the following requirements must be met:

- Employ 200 R&D employees or more or have at least 20% of its total employees representing R&D employees;
- Increase the number of employees by an average of 25% within the last three years, and have at least 50 employees during those years;
- Obtain an investment of at least ILS 8M by a venture capital fund; or
- Increase revenue by an average of 25% in the last three years, and have at least ILS 10M of revenue in these years.

IP and jurisdictional restrictions

R&D activities must be carried out in Israel and the Israeli company must incur the R&D-related expenditure.

Other concerns

R&D expenditure generally is deducted in the year incurred, but some expenditure may be deducted over a period of three years.

Patent box

Enterprises qualifying for the Preferred Technology Enterprise and the Special Preferred Technology Enterprise regimes benefit from a reduced tax rate on capital gains derived from the sale of an intangible asset to a foreign related corporation (12% and 6%, respectively).

Israel

Industrial companies located in priority areas may be entitled to tax benefits and grant incentives

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Government incentives

Innovation

R&D grants

Companies in any industry (e.g., pharmaceuticals and medical devices, software and hardware development, and energy and utilities) engaging in innovative R&D activities are eligible for R&D grants. Qualifying expenditure includes in-house R&D costs, materials and consumables, consultant and subcontractor costs, patent registration, application costs for regulatory approval, capital investments, and overhead.

R&D fund

The main program of the Innovation Authority supports R&D projects in Israel by offering conditional grants of up to 50% of approved R&D expenditure (up to 60% in Priority Area A and up to 75% in the area surrounding the Gaza Strip). If the R&D project is successful, the company must repay the grant by making royalty payments from future related revenue.

A large corporation with more than ILS 100M of annual taxable income and more than 200 R&D employees in Israel, or with an R&D budget of at least ILS 20M per year, may be entitled to a grant of up to 50% of approved R&D expenses.

Special benefits for selected areas: Israel offers special benefits for R&D undertaken in special fields, including: (i) traditional industries, such as food and beverages, textiles, print, metal, and plastics; and (ii) non-traditional industries, such as the space industry and alternative fuels. There also are special benefits for start-up and new companies.

A multinational corporation (over ILS 2.5B of annual revenues) investing (money or assistance) in R&D projects may be entitled to joint ownership in IP with the Israeli company.

Technological incubators may be entitled to grants of up to 85% of approved expenses for nascent companies to develop disruptive innovative technologies.

The "Tnufa" program is designed to encourage and support an individual entrepreneur in the initial efforts to build a prototype, register a patent, design a business plan, etc. Grants are offered up to 85% of approved expenses up to a maximum of ILS 210K for each project.

The MAGNET program sponsors innovative generic industry-oriented technologies through synergetic collaboration between industrial companies and academic research groups.

Binational funds and bilateral agreements enable joint R&D programs with foreign counterparts worldwide.

Horizon 2020

Israeli companies can apply for grants under the European Commission's Eighth Framework Program—Horizon 2020, which is the main instrument for funding R&D activities, and covers several disciplines including ICT, nanotechnologies, advanced materials, biotechnology, advanced manufacturing and processing, space, health, food security, energy, transport, the environment, and security.

Israel participates in the EUREKA funding platform, which is the world's largest R&D program that promotes industrial innovation by aiding and supporting industrial R&D projects that aim to develop new products and bring them to the market. Funding is contingent on budget and funding rates outlined by the specific call for proposal (generally 70% or 100% funding, plus a 25% overhead).

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Government incentives (continued)

Investment

Grants for expanding activity

Industrial companies located in Priority Area A that export more than 25% of their total turnover to a market larger than 14 million persons may qualify to receive grants under either of the following tracks:

- **Grants for investing in manufacturing facilities:** 20% of the approved total investment (30% for companies located in the south of Israel); or
- **Grants for hiring new employees:** Between 20% to 27.5% of salary costs.

Grants for recruiting new employees

Companies located in Priority Area A may receive cash grants for recruiting new employees with high salaries. Salaries of at least the average national salary and up to 2.5 times the average national salary can attract grants of between 10% to 35% of salary costs for the employment of at least 15 new employees (and no more than 100 employees) for a period of up to 48 months. There is a cap of ILS 30K on salary costs per employee.

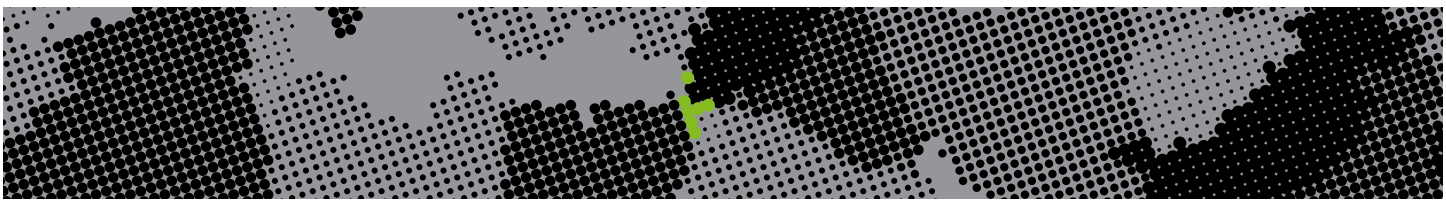
Companies located in all areas may receive cash grants for recruiting new employees from populations with a high unemployment rate. Available are grants of up to 27.5% of the salary costs for employment of at least five new employees from specific populations (ultra-orthodox, minorities, individuals with disabilities, single parents) for a period of at least 30 months. This track refers to companies located in all areas.

Grants for training employees

Companies that wish to recruit new employees and need to provide them on the-job training may apply for a grant. The maximum grant available is up to ILS 18K per employee.

IP and jurisdictional restrictions

Restrictions are unique to each grant program. Under most grants, the IP must remain in Israel. However, the transfer of IP outside of Israel is possible, subject to the approval of the Innovation Authority, and may require additional payments. In some programs, the resulting IP does not have to reside within Israel, although location is considered in the granting process.



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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Tax credit	EUR 20M	EUR 20M
R&D grant (national)	Yes	Yes	Yes	Advance	Grant, subsidized loan	Varies	Varies
Grant (national)—Settlement contract	Yes	No	No	Advance	Grant, subsidized loan	• Up to 50% of eligible expenses for industrial and tourism projects • Up to 60% of eligible expenses for environmental protection projects • Up to 70% of eligible expenses for R&D projects	• Up to 50% of eligible expenses for industrial and tourism projects • Up to 80% of eligible expenses for environmental protection projects • Up to 70% of eligible expenses for R&D projects
R&D grant (national)—R&D projects for sustainable industry and digital agenda	Yes	No	No	Advance	Grant, subsidized loan	Cash grants up to 10% of eligible costs and subsidized loans between 50% and 70% of eligible costs	Cash grants up to 15% of eligible costs and subsidized loans between 50% and 70% of eligible costs
R&D grant (EU)	Yes	Yes	Yes	Advance	Grant	Varies	Varies
Patent box	Yes	No	Yes	Advance	Tax exemption	50% tax exemption for corporate income tax and IRAP to profits earned from IP	50% tax exemption for corporate income tax and IRAP to profits earned from IP

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Italy

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—Tax credit for investments in southern Italy	Yes	No	Yes	Advance	Tax credit	10% or 25% of eligible costs, capped at EUR 15M	Medium-sized enterprises: 20% or 35% of eligible costs, capped at EUR 10M, small enterprises: 30% or 45% of eligible costs, capped at EUR 3M
CAPEX—Tourism and Hotel sector tax credit	Yes	No	Yes	Advance	Tax credit	65% tax credit	65% tax credit
CAPEX—140% Super depreciation	Yes	No	Yes	Arrears	Super deduction	40% increase in tax deduction	40% increase in tax deduction
CAPEX—250% Hyper depreciation	Yes	No	Yes	Arrears	Hyper deduction	150% increase in tax deduction	150% increase in tax deduction
Employment	Yes	Yes	Yes	Varies	Varies	Varies	Varies

Key: =Yes =Limited availability =No =N/A

Italy

Italy continues to broaden the scope of R&D tax incentives

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R&D tax incentives

Background

Italy's corporate income tax rate is 24%, and the regional income tax on productive activities (IRAP) standard rate is 3.9% (the IRAP rate depends on the region and the industry).

The R&D tax credit was further enhanced in 2017.

Nature of incentives

Incremental R&D tax credit

An incremental R&D tax credit scheme, available for FYs 2015 through 2020, provides a 50% tax credit computed on the amount of qualifying expenditure exceeding the average R&D expenditure incurred during FYs 2012, 2013, and 2014. Before 2017, the law provided an incremental tax credit computed at a 25% or 50% rate, depending on the nature of the expenses.

Qualifying R&D expenditure for these purposes includes: (i) labor costs for highly qualified researchers; (ii) depreciation of tangible assets normally used by the company in R&D activities; (iii) costs for R&D activities contracted to universities, research centers, or other companies; and (iv) costs incurred for technical expertise related to IP and for non-highly qualified employees involved in R&D activities. Intercompany contracted research is allowed with some limits, and the intercompany contractor is required to obtain detailed costs and supporting documentation from the commissioning company.

All persons carrying on an entrepreneurial activity are eligible to claim up to EUR 20M in tax credits per fiscal year, provided an annual minimum investment of EUR 30K is made. Companies that are not subject to a statutory audit must obtain a report issued by an independent auditor or an audit firm. Audit costs are eligible costs in the calculation of the tax credit (with a cap of EUR 5K per fiscal year). The R&D tax credit is a cash grant equivalent since it can be used to offset corporate income tax, IRAP, withholding tax liabilities, and VAT without limitation.

Tax relief for investments in "R&D-intensive start-up companies" (ISTs) and research-intensive SMEs

ISTs are companies whose main goals include the development and production of innovative and technologically advanced products or services. Research-intensive SMEs are similar and generally are SMEs that carry out research-intensive operations. To qualify as an IST, the annual turnover may not exceed EUR 5M, and to qualify as an R&D-intensive SME," the annual turnover may not exceed EUR 50M. Other requirements also must be met concerning the amount of R&D expenditure incurred, the number of highly qualified employees employed, and the ownership of IP (e.g., license, patent, or registered software).

The Budget Law 2017 has made permanent the provision that corporations investing in an IST may be entitled to an immediate deduction equal to 30% of the invested amount (the maximum eligible investment is EUR 1.8M per year). Individuals investing in an IST are eligible for a 30% tax credit (up to an annual maximum investment amount of EUR 1M per year). The total amount of combined investments received by an IST from external investors (whether corporations or individuals) for each fiscal period may not exceed EUR 2.5M; however, a deduction is available only if the investment is made in the form of a cash contribution.

IRAP deduction

Wages paid to fixed-term employees generally are not deductible for IRAP purposes; however, a deduction is permitted if the fixed-term employees are researchers involved in R&D activities.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Eligible activities include basic research and applied R&D activities. Qualifying expenses for the incremental R&D tax credit include the following:

- Labor costs of highly qualified researchers performing R&D activities;

Italy

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R&D tax incentives (continued)

- Labor costs incurred for non-highly qualified employees who directly support R&D activities;
- Depreciation expenses and leasing costs for machinery and instruments used in qualified research (if the per unit cost is at least EUR 2K);
- Fees paid for conducting research on the taxpayer's behalf by universities, research institutions, and other companies; and
- Costs of purchased technical knowledge and patents.

Activities and expenses related to ordinary or periodic modifications to existing production lines, manufacturing processes, existing services, and other existing operations are not eligible for the tax credit.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP.

Incremental R&D tax credit

R&D can be contracted abroad, but the supplier must be resident for tax purposes/settled in a EU/EEA member state or in a country/territory that allows an adequate exchange of information. R&D tax credit benefits historically have not applied to companies that carry out R&D activities commissioned by other entities. However, as from FY17, the benefit may apply to resident companies (and to Italian permanent establishments (PEs) of nonresident companies) that carry out R&D activities commissioned by nonresident entities.

Other concerns

As noted above, incremental R&D tax credit claims must be supported by documentation. Companies not subject to a statutory audit must obtain a report issued by an independent auditor or an audit firm.

Patent box

A patent box regime enables all taxpayers carrying on an entrepreneurial activity in Italy, including PEs of foreign entities, to apply for a 50% exemption for corporate income tax and IRAP purposes for profits earned from IP. The patent box applies to income earned from the direct and/or indirect exploitation of patents, trademarks (but see below regarding trademarks), software, designs and models, know-how, and to capital gains derived from such intangibles (under certain conditions). The income exemption is intended to comply with the principles in action 5 of the OECD's BEPS project on IP regimes, in which the OECD advocates a "modified nexus approach," which means that the exemption is limited to income attributable to R&D activities undertaken by the company to develop income-producing intangibles (even if contracted to research entities or to third companies). The incentive is available as from FY 2015 at the taxpayer's option and is binding for five years. In the case of "direct" exploitation, a tax ruling (advance pricing agreement) must be obtained from the tax authorities. The patent box has been aligned with the OECD standards, excluding trademarks from the exemption, but this change does not impact options exercised for the FY 2015 and 2016 until 2021.

Italy

Italy offers many different government incentives to encourage capital expansion and innovation

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Government incentives

A wide range of regional and national cash grants and subsidized loans are available for R&D-intensive entities, but the nature of the incentives and their availability depends on the region and the size of the company.

Innovation

Settlement contract

This measure encourages significant investments (minimum investment amount of EUR 20M) to improve industries in areas defined by the Italian regional aid map. Eligible settlement projects may involve the creation of a new production unit or the expansion/restructuring/acquisition of existing production units. Projects can be combined with R&D projects within the settlement contract program. Eligible expenses may relate to tangible fixed assets, intangible assets, R&D personnel, and other R&D-related expenditure. Various types of incentives, such as grants, subsidized loans, and interest-rate subsidies may be provided, or combined up to a certain percentage of the gross grant equivalent to eligible expenses depending upon certain conditions. More specifically, incentives of up to 50% of eligible expenses for industrial and tourism projects, up to 80% of eligible expenses for environmental protection projects, and up to 70% of eligible expenses for R&D projects are available. The established budget is EUR 250M, but an additional EUR 300M has been allocated to the implementation of highly innovative, competitive, and energy efficient settlement contracts in relatively underdeveloped areas (Basilicata, Calabria, Campania, Puglia, and Sicily).

R&D projects for sustainable industry

The Ministry of Economic Development supports large projects (from EUR 5M to 40M in costs) for R&D investments within the sustainable industry framework. The program finances projects that apply key enabling technologies for the development of innovative products/processes and services within the following sectors: industrial plant and processes; transport; aerospace; telecommunications; energy; green building; and environment protection. The established budget is EUR 410M. The incentive is a combination of cash grants (up to 10% of eligible costs for large enterprises and up to 15% for SMEs) and subsidized loans (between 50% and 70% of eligible costs). Resources are distributed among claimant companies based on the date the claim is submitted.

R&D projects for digital agenda

The program finances projects that apply key enabling technologies in information and communication technology (ICT) for the development of innovative products, processes, and services in the following sectors: health; education/inclusive society; cultural heritage; smart transport; smart and clean energy; environment; smart government; electronic communications and smart manufacturing. The established budget is EUR 120M. The incentive is a combination of cash grants (up to 10% of eligible costs for large enterprises and up to 15% for SMEs) and subsidized loans (between 50% and 70% of eligible costs). Resources are distributed among claimant companies based on the date the claim is submitted.

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Government incentives (continued)

Investment

CAPEX—Tax credit for investment in southern Italy

A tax credit is granted for new capital expenditure during the period 1 January 2016 through 31 December 2019 in certain areas of the southern regions of Italy (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, and Sicily). The amount of the credit depends on the size of the company and the location: (i) for large companies, the credit is up to 10% or 25% of eligible costs (capped at EUR 15M); (ii) for medium-sized companies, the credit is up to 20% or 35% of eligible costs (capped at EUR 10M); and (iii) for small companies, the credit is up to 30% or 45% of eligible costs (capped at EUR 3M).

CAPEX—Tourism and hotel sector tax credit

The program gives companies in the tourism and hotel sector existing on 1 January 2012 the opportunity to benefit from a tax credit equal to 65% of eligible expenses that do not exceed EUR 200K. Eligible expenditure must be incurred during the period from 1 January 2017 through 31 December 2018 and must relate to restructuring, removal of architectural barriers, increase of energy efficiency, or the purchase of furniture and furniture components.

CAPEX—140% super depreciation

The super depreciation, which is designed to encourage new CAPEX, is applicable to newly purchased and financially leased assets purchased between 15 October 2015 and 30 June 2018. For assets purchased on or after 1 January 2018, the relevant purchase orders must have been accepted by the seller, and at least 20% of the purchase price must have been paid by 31 December 2017. Investments in new assets such as machinery and equipment are eligible, but real estate is not eligible. All persons carrying on an entrepreneurial activity in Italy can benefit from this measure.

The incentive is a 40% increase in the tax deduction of depreciation of the newly purchased assets, resulting in a 140% super depreciation. The depreciation, therefore, will increase the asset's value by 40% compared to the book value, for the entire depreciation period.

CAPEX—250% hyper depreciation

The 2017 Budget Law introduced a 250% "hyper depreciation" for new plant, equipment, and machinery whose operation is controlled by computer systems and/or operated by suitable sensors and drives interconnected to the factory's computer systems purchased between 1 January 2017 and 30 September 2018. For assets purchased on or after 1 January 2018, the relevant purchase orders must have been accepted by the seller, and at least 20% of the purchase price must have been paid, by 31 December 2017. Moreover, a 140% super depreciation is available for purchased software, provided it is connected to plant, equipment, and machinery benefiting from the hyper depreciation.

Japan

Overview

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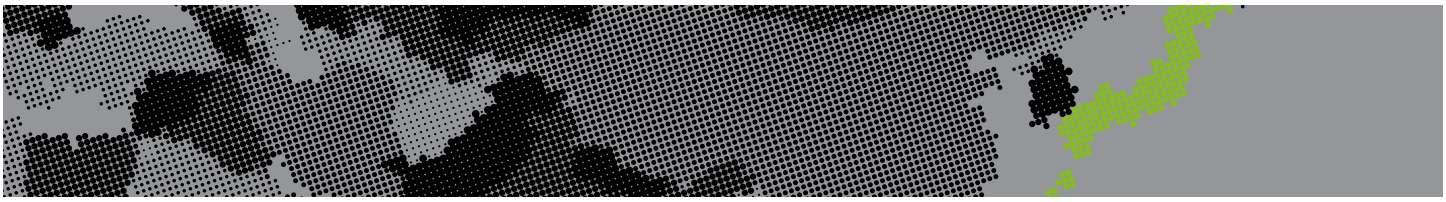
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
Volume-based R&D tax credit	Yes	No	Yes	Arrears	Tax credit	Tax credit of 6%–14% of total R&D expenditure, up to 25% or 35% of national corporation tax liability	Tax credit of 12%–17% of total R&D expenditure, with limit of 25% or 35% of national corporation tax liability
Tax credit for special R&D costs	Yes	No	Yes	Arrears	Tax credit	30% for special R&D costs	30% for special R&D costs
Incremental R&D tax credit	Yes	Yes	Yes	Arrears	Tax credit	Additional tax credit allowed when current period R&D cost exceeds certain criteria (calculated based on past annual sales), with limit of 10% of national corporation tax liability	Additional tax credit allowed when current period R&D cost exceeds certain criteria (calculated based on past annual sales), with limit of 10% of national corporation tax liability
R&D grant (national)	Yes	No	Yes	Arrears	Cash payment	Varies	Varies
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—Special depreciation/tax credit in national strategic special zones (42-10)	Yes	Limited availability	Yes	Arrears	Special depreciation/ Tax credit	Special depreciation: 25% or 50% of purchase price, depending on the asset tax credit: 8% or 15% of the purchase price with a limit of 20% of national corporation tax liability	Special depreciation: 25% or 50% of purchase price, depending on the asset tax credit: 8% or 15% of the purchase price with a limit of 20% of national corporation tax liability
CAPEX—Special depreciation/tax credit for revitalization of regional economies (42-11-3)	Yes	Limited availability	Yes	Arrears	Special depreciation/ Tax credit	Special depreciation: 15% or 25% of the purchase price depending on the type of assets Tax credit: 4% or 7% of the purchase price, depending on certain conditions up to a limit of 20% of the national corporation tax liability	Special depreciation: 15% or 25% of the purchase price depending on the type of assets Tax credit: 4% or 7% of the purchase price, depending on certain conditions up to a limit of 20% of the national corporation tax liability
Employment—Job creation tax credit (42-12)	Yes	Limited availability	Yes	Arrears	Tax credit	Tax credit is granted for certain increased number of newly employed persons in specified area for year, multiplied by JPY 400K	Tax credit is granted for certain increased number of newly employed persons in specified area for year, multiplied by JPY 400K
Employment—Salary increase tax credit (42-12-5)	Yes	Limited availability	Yes	Arrears	Tax credit	Tax credit of 10% (plus 2% of the increase in average salaries if certain conditions are satisfied) of the increased amount of salaries, up to a limit of 10% of the national corporation tax liability	Tax credit of 10% (plus 12% of the increase in average salaries if certain conditions are satisfied) of the increased amount of salaries, up to a limit of 20% of the national corporation tax liability

Key: =Yes =Limited availability =No =N/A

Japan

Japan offers volume-based credits, as well as incremental credits for companies that have increased their research spending

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R&D tax incentives

Background

The general national corporate income tax rate in Japan is 23.4% for fiscal periods beginning on or after 1 April 2017 (the rate will be reduced to 23.2% for fiscal periods beginning on or after 1 April 2018). Other local corporate income tax rates (inhabitant tax rate and local enterprise tax rate) also apply when calculating the total corporate income tax liability of a company. Therefore, the effective rate of national corporate and local income tax is approximately 30% for periods beginning on or after 1 April 2017 (based on the standard tax rates for large corporations that are subject to factor-based enterprise taxation).

The R&D tax incentives are volume-based and incremental.

Nature of incentives

Volume-based tax credit

The tax credit for general R&D costs is a volume-based credit, which varies depending on whether the company claiming the credit is a SME or a large company.

- **SMEs:** A SME is defined as a company with stated capital of JPY 100M or less. A SME owned by a large company whose stated capital exceeds JPY 100M, or a company with more than 1,000 employees, do not qualify as SMEs for these purposes.

  A SME may claim a tax credit equal to 12% (or up to 17% under transitional measures for fiscal periods beginning on or after 1 April 2017 through 31 March 2019, where the R&D cost increased from the average of the prior three years expenditure by more than 5%) of total R&D expenditure. The credit is capped at 25% (or at 35% under transitional measures) of the company's national corporation tax liability before the credit is applied.

- **Large companies:** The tax credit for large companies is 6% to 10% (14% under transitional measures, where the R&D cost increased from the average of the prior three years expenditure by more than 5%) of total R&D expenditure. The credit is capped at 25% (or at 35% under transitional measures for the above-mentioned period, if certain conditions are fulfilled) of the company's national corporation tax liability before the credit is applied.

Credit limitations—The credit limitation generally is 25% of the corporate tax liability. However, where the additional tax credit is not taken, the volume-based tax credit limitation is increased as follows: if R&D expenditure for an SME increased by more than 5% from the average of the prior three years expenditure, the credit limitation is increased by 10% (i.e., to 35% of the corporate tax liability). If R&D costs for large companies exceed 10% of average sales, the credit limitation may be increased by 0% to 10% (i.e., up to 35% of the corporate tax liability).

Tax credit for special R&D costs

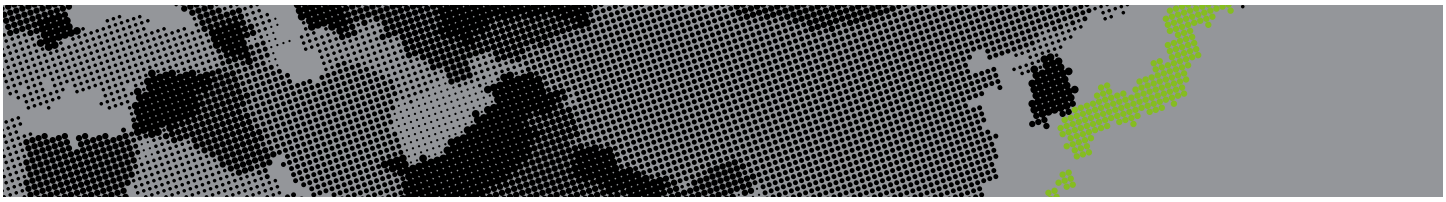
A 30% credit is provided for joint R&D with a university or public research institution or where the R&D is contracted to such entities (20% where the R&D is with other non-public entities). This provision is applicable to "blue" tax return filers (see below), which includes both SMEs and large companies. Royalty payments made to SMEs also qualify for this special tax credit. The credit is limited to 5% of the company's national corporation tax liability before the credit is applied, and this limitation is in addition to the other limitations on research credits.

Incremental R&D tax credit

Additionally, where the current period R&D expenditure exceeds 10% of the average annual sales for the four preceding fiscal years (including the current year), the company is eligible for an additional credit calculated using the following formula: R&D expenditure less [average annual sales for the four prior years x 10%] multiplied by the R&D ratio (defined below) reduced by 10%, multiplied by 20%.

The R&D ratio is the amount of current year R&D expenses divided by the average annual sales for the four preceding fiscal years (including the current tax year).

The tax credit is limited to 10% of the company's national corporation tax liability before the credit is applied. The additional tax credit is available for fiscal years commencing on or after 1 April 2017 through 31 March 2019.



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R&D tax incentives (continued)

Eligible industries and qualifying costs

Research credits are not limited to specific industries, although the activity must be technological and scientific in nature. As a result, research conducted in nontechnical fields generally does not qualify for the research credit.

The expenses must be incurred by the Japanese entity. Research expenses funded by unrelated entities (government agencies, customers, suppliers, etc.) are not eligible for the research credit.

To qualify for the credit, the expense must be incurred to:

a) Manufacture products or to improve, design, formulate, or invent technology, or
b) Service development in relation to the "fourth industrial revolution" (business using IT, big data, artificial intelligence etc.).

Expenses included in (a) should be incurred in relation to technological and scientific R&D. Any expense incurred in relation to humanities or social science research would not qualify. For example, any cost incurred to achieve efficiency of the business or to improve sales techniques would not be eligible for this tax credit. And, expenses included in (b) should be incurred in relation to the development of services which are for sale to a third party.

R&D cost incurred to support an entity's own operations does not qualify as either (a) or (b) above

Qualifying expenditure includes in-house labor costs, supplies, overhead, depreciation on fixed assets, and contract costs. Only tax deductible R&D expenses incurred by the Japanese entity are eligible for the credit.

Salaries generally mean the amount paid to employees who are engaged exclusively in R&D activities; however, segregation of activities may be permitted if clearly documented. Labor costs relating to performing qualifying activities may be allowable for R&D credit purposes to the extent details of the activities are clearly documented. Documentation should indicate the time spent by each employee on qualifying R&D activities, with details of appropriate calculations for the labor costs. The legislation is silent as to how to determine the applicable labor costs.

The R&D tax credit is available to "blue" return filers. Blue form tax return status is obtained by submitting an application to the appropriate tax office. Record-keeping substantiation requirements apply.

Unused tax credits may not be carried forward.

IP and jurisdictional restrictions

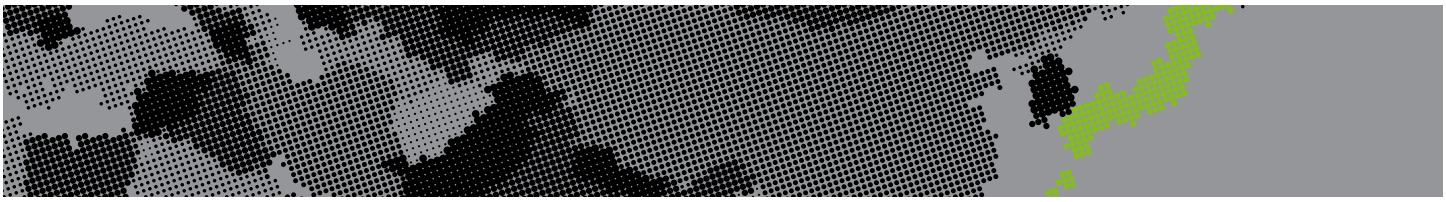
Japanese law does not expressly require that companies claiming research tax incentives own the IP created through their R&D activities.

The qualifying costs incurred by a Japanese company are eligible for the research credit even if the research is conducted outside of Japan.

Other concerns

No prior approval is required from the government or regulatory agencies.

The credit must be claimed on the tax return for the relevant period. Claims on amended tax returns generally are accepted in cases of a change to the tax credit limitation amount.



Japan

Japan offers many different grants for R&D, as well as providing government incentives to encourage employment, fair compensation, capital expansion and regional development

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Government incentives

Innovation

R&D grants

Japan offers many different grants for R&D across a wide range of fields. For example, the Small Business Innovation Research (SBIR) program encompasses cash grants from several government ministries (e.g., Internal Affairs and Communications (for strategic IT development); Education, Culture, Sports, Science and Technology (for the development of medical equipment); Health, Labor and Welfare (for the development of self-support equipment for disabled persons); Agriculture, Forestry and Fisheries (for the development of IT technologies for cultivation); Economy, Trade and Industry (for the development of robots for practical uses); Land, Infrastructure, Transport and Tourism (for the development of construction technology); and Environment (for the development of CO2 reduction technologies)).

Investment

CAPEX—Special depreciation/tax credit for revitalization of local economies (42-11-3)

Tax incentives are available to encourage the revitalization of regional economies through the relocation of head office functions from large cities to local regions, and the expansion of head office functions at existing regional facilities. Special depreciation of 25% of the acquisition cost of buildings may be available in the case of relocation, and 15% in the case of expansion. Alternatively, a tax credit (capped at 20% of the corporation tax liability) may be taken for 7% of the acquisition costs in the case of relocation, and 4% of the acquisition costs in the case of expansion. In both cases, the minimum investment amounts are JPY 20M (JPY 10M for certain SMEs).

CAPEX—Special depreciation/tax credit in national strategic special zones (42-10)

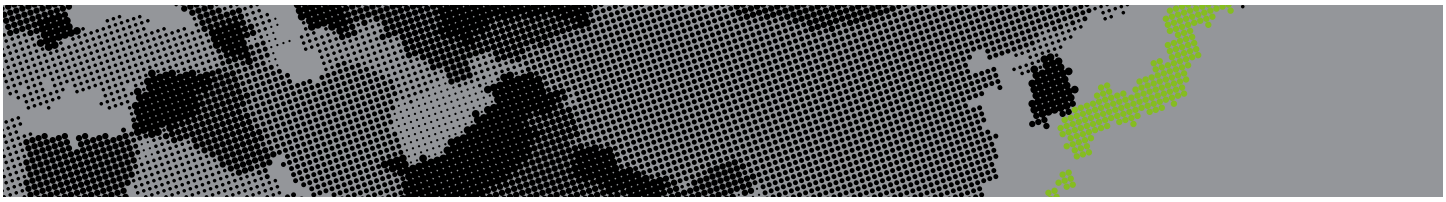
Special depreciation or a tax credit may be available for the acquisition cost of eligible assets in designated national strategic special zones. Special depreciation depends on the type of asset acquired: 25% for buildings and structures, and 50% for machinery and R&D equipment/fixtures used in specified businesses within the zones that are conducive to international competitiveness or the formation of hubs for international business. Alternatively, a tax credit (capped at 20% of the national corporation tax liability) may be taken for 8% of the acquisition costs of buildings and structures, and 15% for the costs of machinery and R&D equipment/fixtures used in specified businesses. To qualify for special depreciation or the tax credit, the eligible assets must be detailed in an approved business plan and exceed certain minimum acquisition amounts. The incentives are for assets acquired and put into use before 31 March 2018.

Employment—Job creation tax credit (42-12)

To encourage companies to increase headcount, a credit of JPY 400K for each new employee hired generally is available where the following conditions are satisfied, and the company is not engaged in certain restricted businesses:

- There is at least a 10% increase in the number of employees (at least five new employees) in the current year as compared to the prior year (two new employees for SMEs);
- Current year total salary is greater than prior year total salary (with certain adjustments); and
- No employees are made redundant during the current and prior years.

The amount of the credit is capped at 10% of the national corporation tax (20% for SMEs) and is available for years beginning on or before 31 March 2018.



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Government incentives (continued)

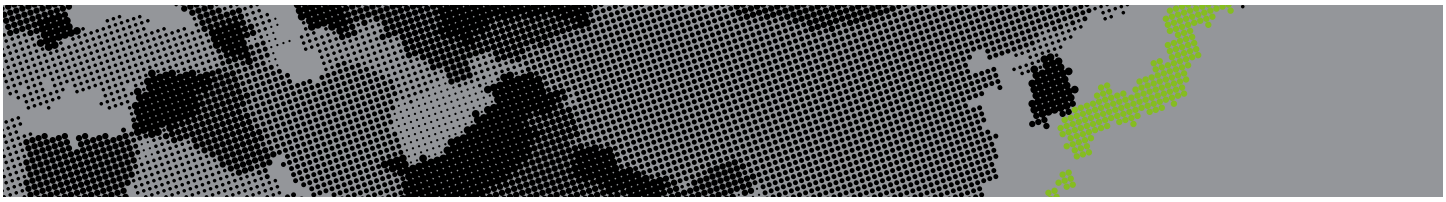
Employment—Salary increase tax credit (42-12-5)
A tax credit is available to companies that increase salaries and satisfy certain requirements. The creditable amount for large companies is 10% of the increase in current year salary over the amount of salary in the company's "base year" (i.e., the year prior to its first taxable year beginning on or after 1 April 2013). There is an extra tax credit of 2% of the increase in current year salary over the previous year salary, provided the amount of average salary exceeds the amount of average salary in the previous year by at least 2%. Otherwise, no tax credit is available for large companies. The credit is capped at 10% of the national corporate tax.

The creditable amount for SMEs is equivalent to 10% of the increase in current year salary over the amount of salary in the company's "base year," plus 12% of the increase in current year salary over the previous year salary, provided the amount of average salary exceeds the amount of average salary in the previous year by at least 2%. If the increase is less than 2%, there is no extra creditable amount. The credit is capped at 20% of the national corporate tax

The qualifying requirements are as follows:

- The percentage increase in current year total salary compared to the base year is at least 5% (3% for SMEs) for years commencing between 1 April 2017 and 31 March 2018;
- The current year salary is greater than or equal to the prior year salary; and
- The average salary per employee in the current year is greater than or equal to average salary per employee in the prior year.

The credit is available for years commencing from 1 April 2013 to 31 March 2018.



Latvia

Overview

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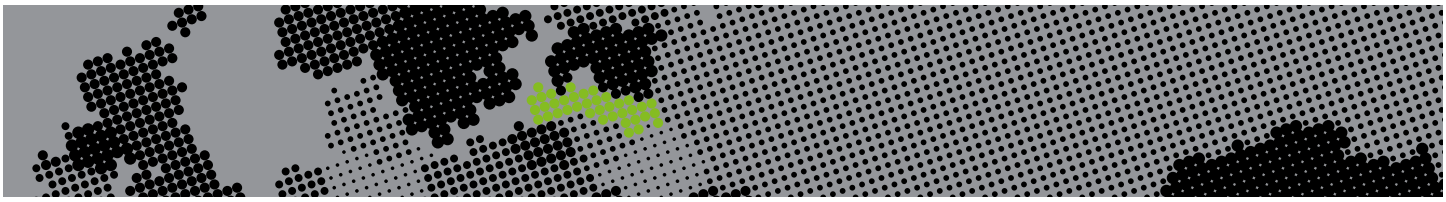
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Superdeduction of R&D costs	300% of qualified research expenses	300% of qualified research expenses
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	Yes	No	Yes	Advance	Grant for R&D activities	25%–65% of eligible R&D costs	35%–80% of eligible R&D costs
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Promoting the business start-up ecosystem	Yes	No	No	Advance	Special flat tax regime	N/A	Fixed monthly wage tax (social contributions) of EUR 259 for monthly wages up to EUR 4,050

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



Latvia

Overview (continued)

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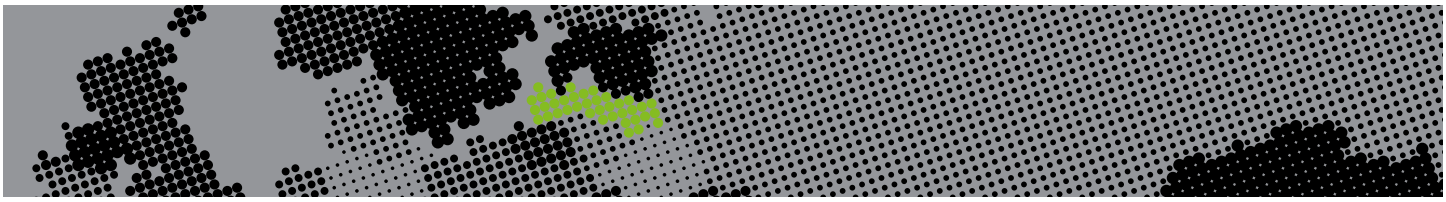
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—Tax credit for supported investment project realization	Yes	No	No	Advance	Corporate income tax rebate can be applied after the approved investment project has been implemented	25% of the investment up to EUR 50M, and 15% of the amount of the investment exceeding EUR 50M	25% of investment up to EUR 50M, and 15% of the amount of the investment exceeding EUR 50M
CAPEX—Relief for new production equipment acquisition to encourage production modernization	Yes	No	No	Arrears	Super deduction	150% of equipment purchase costs	150% of equipment purchase costs
Regional Development —SEZs	Yes	No	No	Advance	Tax rebate for companies working and investing in an SEZ	80% corporate income tax rebate	80% corporate income tax rebate
Employment—Incentive for the attraction of highly skilled staff	Yes	No	Yes	Advance	Grant to cover wage costs	N/A	Up to 45% of wage costs
Employment—Training incentives to promote innovation in companies	Yes	No	Yes	Advance	Grant	Funding of up to 50% of costs	Funding of up to 70% of costs
Environmental sustainability							
Exemption for electricity produced from renewable energy sources	Yes	No	No	Arrears	Tax relief for electricity produced from RES	Exemption from electricity tax	Exemption from electricity tax

Key: =Yes =Limited availability =No =N/A



Latvia

Latvia offers a super deduction of 300% of qualifying R&D expenses

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R&D tax incentives

Background

The corporate income tax rate in Latvia is 15% on taxable income. However, as from 1 January 2018, any company operating in Latvia will pay corporate income tax only at the time profits are distributed (except for reinvested profits) at a rate of 20% distribution. Unlike the current CIT regime, the new CIT regime is based on cash-flow taxation model, which provides that CIT is payable at the moment of profit distribution (including estimated profit distribution). In case of reinvestment of profit, CIT shall not be applied. The applicable CIT rate upon profit distribution is increased from the current 15% to 20%. As part of the new regime, many existing tax provisions that offer relief will be abolished, including depreciation for tax purposes, extra tax allowances for new equipment, support for R&D costs, and tax relief for large investments.

Nature of incentives

A 300% super deduction is allowed for the following types of expenses:

- Labor costs of personnel directly involved in qualifying R&D activities.
- Payments made to registered scientific institutions (SIs) for qualifying R&D activities. Latvia has a register of SIs that includes universities and other public and private research institutions. SIs must meet formal criteria, including having at least five employees with doctoral degrees in relevant research areas, preparing scientific publications, and developing and/or registering IP. If a Latvian company outsources its R&D to a foreign institution within the EU/EEA, that institution must meet the same formal criteria as a Latvian SI.
- Payments made to accredited institutions for performing certification, calibration, and testing services.

Entrepreneurs from Latvia also can apply for aid for R&D projects under the Horizon 2020 Program financed by the European Commission.

Eligible industries and qualifying costs

The R&D incentive is not limited to particular industries. To claim the benefit, the taxpayer must prove that activities are R&D activities, meaning that they must have an element of novelty and the underlying activities addresses scientific and/or technological uncertainty.

Definitions of qualifying R&D activities to a large extent are based on the OECD Frascati Manual, and the following types of R&D activities will qualify:

Applied research: Planned research or critical investigation to acquire new knowledge and skills for the development of new products and technology or for the significant improvement of existing products or technology.

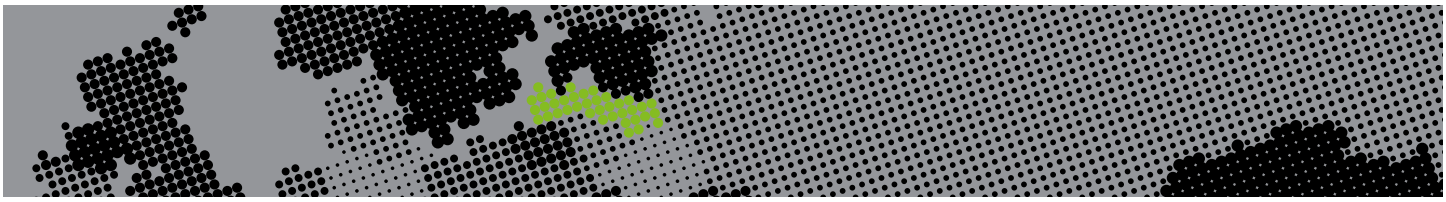
Experimental development: The use of scientific, technological, commercial, or other relevant knowledge or skills to create new or significantly improved products, technologies, or activities aimed at defining, planning, and documenting conceptually new products or technology.

The anticipated result of the R&D activities must be innovation or providing new insight into scientific or technology problems.

R&D generally involves the search for a solution to a problem that is not obvious to the relevant industry experts.

The development of products/technologies that are similar to products/technologies already existing in the market is eligible if the company proves the following:

- The product/technology was not publicly known or technical details were protected; or



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R&D tax incentives (continued)

- The product/technology was patented by another company and the IP could not be licensed; or
- The product/technology was licensed, but the license fee exceeds expected development costs.

Qualifying labor costs include costs for the following types of employees:

- Scientists and professionals holding academic degrees who carry out R&D activities to acquire new knowledge, products, processes, methods, and systems; and
- Persons with technical knowledge and expertise participating in R&D activities (engineers, technicians, operators, etc.).

IP and jurisdictional restrictions

The tax incentive can be requested by companies incorporated in Latvia and by registered branches of foreign companies. If a company aims to outsource R&D, only payments to Latvian or EU/EAA SIs/test laboratories will be eligible for incentive under the conditions described before.

If the company applying for R&D tax incentives creates IP, it must retain ownership of the IP for at least three years. Licensing of the IP is permitted. However, there is no requirement that the research result in IP, i.e., unsuccessful or abandoned research projects can qualify for research tax incentives.

Other concerns

A taxpayer must have appropriate documentation to support eligible expenses. These documents include project descriptions before execution of the project and annual reports.

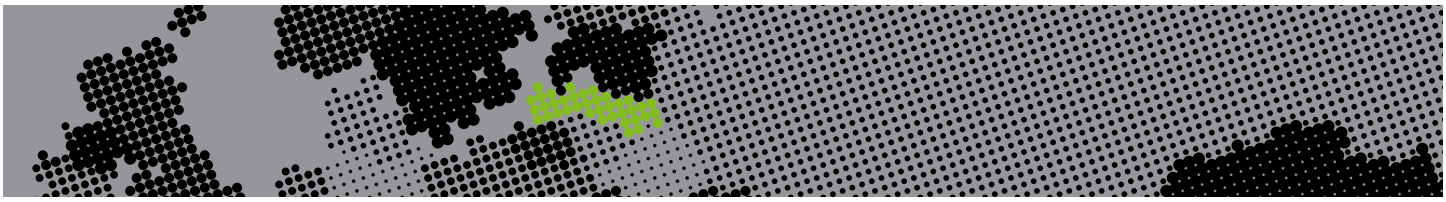
A taxpayer may request approval from a commission under the Ministry of Economics that particular projects meet eligibility requirements, but pre-approval is not required. The R&D tax benefits are claimed on the taxpayer's annual corporate income tax return up to fiscal year 2017. The super deduction will be eliminated as from 1 January 2018, due to the tax reform, but under transition rules, companies will have five years to utilize accumulated incentives. The corporate income tax return may be amended three years after submission.

With the new tax reform, the "holding regime" remains with a restriction that sale of shares will not be CIT exempt if the holding period is less than 3 years. This regime provides a tax exemption for withholding tax on dividends, interest payments and IP payments made by Latvian companies to non-residents.

In addition, there is no CIT payable receipt of dividends if the initial remitter of dividends is a CIT payer in the country of residence and is not registered in black listed jurisdiction.

Companies will be entitled to distribute profit gained until 2018 without the application of new CIT for unlimited period of time, however companies will have a 5 year transitional period to use tax losses accumulated until 2018.

The new law includes anti-avoidance rules, which stipulate that loans issued to related parties in several cases are considered as deemed profit distribution. Restrictions do not apply on loans to directly owned subsidiaries (including entities with minority shareholding).



Latvia

A new incentive encourages the formation of new businesses to enhance research product commercialization

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Government incentives

Several national grants are available to encourage innovation and investment. In addition, funding for the period of 2014–2020 program aims to provide various grants financed by the European Social fund, the European Regional Development Fund and the Cohesion Fund. In 2017, there are several grants for innovation, investments, and employment.

Innovation

Incentives for private sector investments in R&D (EU-funded)
To stimulate businesses' R&D activities and increase cooperation between businesses and research institutions, there are grants to conduct research projects to encourage the development of new products. Most of supported R&D activities must be carried out in accordance with the Smart Specialization Strategy, which provides a broad framework of research fields. For example, the grants promote activities, such as the introduction of new manufacturing products, the development of new products and technology within centers of competence, and innovation "vouchers" to support SMEs. Depending on the support tool, grants cover from 35% to 80% of eligible costs for SMEs and 25% to 65% for large enterprises.

Promoting the business start-up ecosystem (national)
The Start-Up Support Law that entered into effect on 1 January 2017 is intended to encourage the formation of new businesses in Latvia to enhance research product commercialization. New companies are eligible for two types of support to reduce their tax burden:

- In the early stages of the company's development, a special flat tax regime will apply. New companies will have the opportunity to pay a fixed monthly tax per employee equal to the amount of two minimum compulsory state social insurance contributions (EUR 259 in 2017).
- The company will not pay corporate income tax until the unpaid amount reaches EUR 200K in the three subsequent years.

Start-ups also are eligible for a state-aid program to attract highly skilled staff (see below).

Investment

CAPEX—Tax credit on supported investment project realization (national)
An incentive for large-scale investment projects allows taxpayers to claim a tax rebate for initial long-term investment in the following amounts:

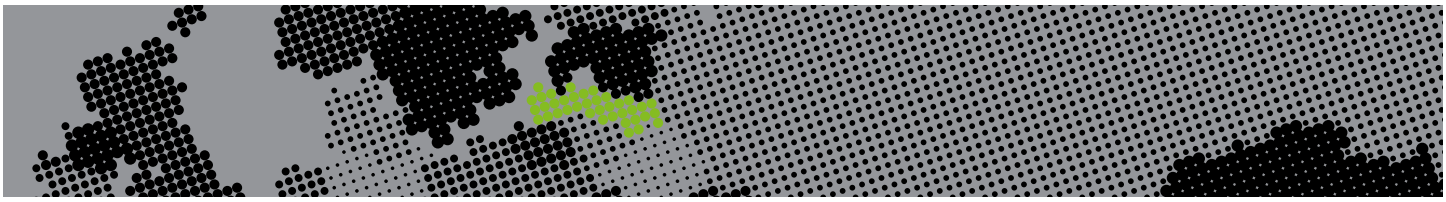
- 25% of the total initial long-term investment up to EUR 50M; and
- 15% of the part of the total initial long-term investment exceeding EUR 50M.

Deadline for applications is 31 December 2017.

CAPEX—Relief for new production equipment acquisition to encourage production modernization (super deduction of 150%) (national)
The acquired value or establishment value of new production technology equipment in each tax period qualifies for a 150% super deduction. Additional depreciation can be calculated for the period up to 31 December 2017, after which the super deduction will be abolished, but under transition rules, companies will have five years to utilize accumulated incentives.

Regional Development—Tax credit on investing in free ports and special economic zones (national)

Businesses that operate in special economic zones (SEZ) in Latvia in compliance with regulatory provisions can reduce their corporate income tax liability by up to 80%, depending on the amount of the investment.



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Government incentives (continued)

This special tax regime will not be materially affected by the tax reform. Companies qualifying will continue to benefit from the corporate income tax liability reduction, as well as a reduction in the real estate tax liability, which can result in an effective tax rate of as low as 4% on profit distributions. The special tax regime for SEZ companies will remain available for investments made until 2035.

Employment—Incentive for the attraction of highly skilled staff (EU funded)
Businesses supported by venture capital can obtain grants to offset wages (grant up to 45% of the wage) within the first five years of operation if they meet certain requirements.

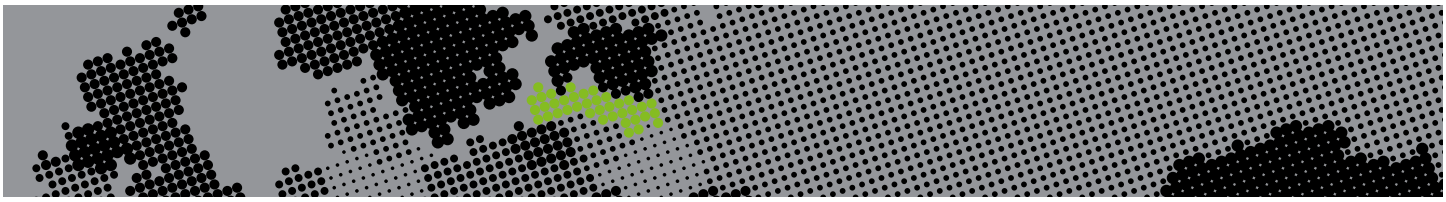
Employment—Training incentives to promote innovation within companies (EU funded)
The incentive aims to provide businesses with appropriately qualified workforce that will increase the implementation of technological and non-technological innovation resulting in increased productivity and efficiency. The grants are available for training of ICT, technological, and non-technological skills up to a maximum assistance equal to 50% of costs for large enterprises and 70% for SMEs. Part of the total fund amount is reserved to attract investors by funding the training of their employees.

Environmental sustainability

Exemption for electricity produced from renewable energy sources (national)
The Electricity Tax Act provides that electricity that is produced from hydroelectric UN and CHP stations that meet the efficiency criteria is exempt from electricity tax.

Other

There are various other incentives for businesses, such as programs aimed at promoting the development of SMEs by providing various loan guarantees, programs promoting the creation and expansion of manufacturing businesses in the regions by developing industrial zones and co-financing new export market development activities. There also are sector-specific benefits for agriculture, aquaculture, tourism, etc.



Lithuania

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D incentive	Yes	No	Yes	Arrears	Tax super deduction and accelerated depreciation	300% super deduction and accelerated depreciation	300% super deduction and accelerated depreciation
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	Yes	No	Yes	Advance	Grant for a project	EUR 6M	EUR 6M
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX—Investment project incentive	Yes	No	Yes	Arrears	Tax deduction	See description	See description
Free economic zone	Yes	Yes	No	Arrears	Tax exemption	Full exemption from corporate income tax for six years, and a 50% reduction in the corporate income tax rate for the following 10 years	Full exemption from corporate income tax for six years, and a 50% reduction in the corporate income tax rate for the following 10 years

Key: Yes, Limited availability, No, N/A

Notes:

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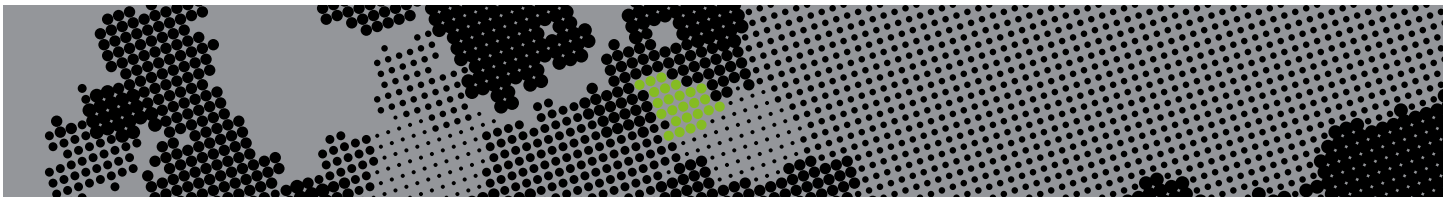

Lithuania

Lithuania offers a 300% super deduction for qualified research expenses

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R&D tax incentives

Background

The corporate income tax rate is 15%. Micro companies (i.e., companies with fewer than 10 employees and annual income less than EUR 300K) may be entitled to a reduced tax rate of 5%.

Nature of incentives

The following tax incentives are available to companies carrying out qualifying research activities:

300% super deduction

The deduction is available for the following:

- Expenses incurred by companies conducting research activities; and
- Expenses incurred to acquire research technologies provided the research is conducted in an EEA country or a country that has concluded a tax treaty with Lithuania.

Accelerated depreciation

Certain capital assets used in the R&D activities (e.g., plant, equipment, computers, communications equipment, and software) may benefit from accelerated depreciation. Depending on the type of capital asset, the depreciation period may be shortened from eight, five, four or three years to two years.

A company that incurs losses attributable to R&D super deductions can carry the losses forward indefinitely.

Eligible industries and qualifying costs

Eligibility for research incentives is not limited to particular industries or types of entity. To claim the benefit, the taxpayer must demonstrate that the activities are R&D activities, the activities must have an element of novelty, and the activities must address scientific and/or technological uncertainty. The aim of an R&D project must be scientific or technological progress, and the results must be significant for the entities that initiated and executed the project.

Qualifying expenditure includes gross wages, social security, and health insurance contributions, business trip expenses, expenses for purchased services (i.e., consultation services with respect to the research activities), building and equipment leasing, maintenance expenses, warehousing, utility services, expenses for raw materials or other consumables used in the research activities. Input/import value added tax (VAT) is nondeductible.

IP and jurisdictional restrictions

The 300% super deduction must be taken to offset taxable income in the period in which the expenses are incurred and the expenses must be incurred by the entity with the intention of generating income or an economic benefit.

There are no restrictions on where the qualifying activities can be carried out, as long as a Lithuanian company pays for the research. The super deduction also is available to a Lithuanian company that acquires research technology if the research relating to the acquired technology has been conducted within the EEA or a country that has concluded a tax treaty with Lithuania. If technology acquired from another company or individual results in IP, the rights or any part of the rights also must pass to the acquiring company.

Other concerns

The taxpayer must collect documentation to substantiate the eligible expenses, although the documentation need not be submitted unless and until requested by the tax authorities. A taxpayer may seek approval from the Lithuanian Agency for Science, Innovation and Technology that particular projects meet eligibility requirements, but pre-approval is not required.

The R&D tax benefits are claimed on the taxpayer's annual corporate income tax return, which can be amended for the preceding five tax periods.

Proposed amendments

The Ministry of Finance has proposed amendments to the corporate income tax law that would introduce a tax incentive for the commercialization of R&D inventions. Under the proposal, taxpayers would be able to apply for a reduced corporate income tax rate of 5% on profits that derive from the exploitation of patented intangible assets as R&D inventions. A specific method would be provided for calculating such profits, and additional requirements would apply. The decision regarding proposed amendments will be made no earlier than 1 December 2017. If approved, the rules become effective on 1 January 2018.

Lithuania

Government tax incentives encourage regional development and capital expansion

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Government incentives

Innovation

R&D grants (EU)

Under the EU Horizon 2020, Lithuania has implemented the Innovation Development Program 2014–2020 and provides research grants to qualifying companies. The main research grants for companies are Intellect: General science-business projects (Intelektas. *Bendri mokslo ir verslo projektai*) and Smartinvest Lt+. The maximum grants are EUR 4.2M and EUR 6M, respectively.

Investment

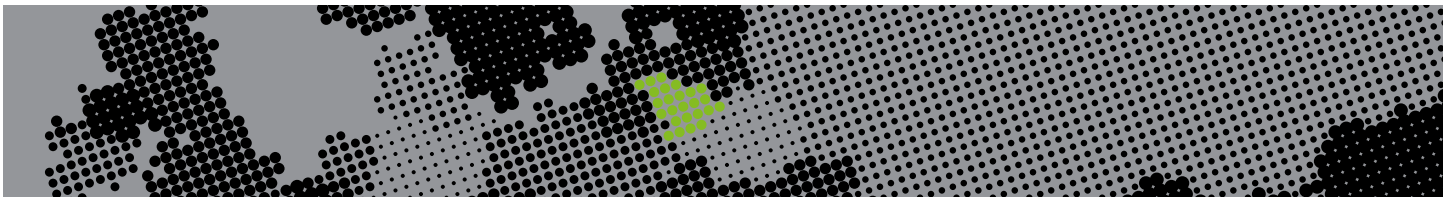
CAPEX—Investment project incentive (IPI)

The corporate income tax law provides a temporary tax incentive for investments when the taxpayer purchases new fixed assets to increase production/service/sale provision capacity. Taxable profits may be reduced by up to 50% of the costs incurred for the acquisition of such assets. The application of the IPI allows taxpayers to deduct costs of new qualifying assets twice: (i) once in the year in which the costs were incurred and the taxable profits declared (with the possibility to carry this amount forward to the following four tax periods); and then (ii) as normal depreciation/amortization. Taxable profits may be reduced by the investment project costs incurred during the tax periods 2009–2018.

The Ministry of Finance has proposed changes to the investment project incentive to allow taxpayers to reduce taxable profits by up to 100% of the investment project costs during the tax periods 2018–2023. If approved by the beginning of December 2017, the new rules would apply as from 1 January 2018.

Free economic zone incentive (FEZ)

The corporate income tax act provides a tax credit for companies located in one of Lithuania's six FEZ. Companies located in such zones are exempt from corporate income tax for six years and can obtain a 50% reduction of the corporate income tax rate for the following 10 years. The FEZ incentive can be applied to manufacturing companies investing over EUR 1M and to service companies investing over EUR 100K and employing not less than 20 employees. Additionally, companies in FEZ are not subject to the tax on dividends or the real estate tax.



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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Advance	Tax exemption/ super deduction	100% tax exemption	100% tax exemption
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX—Reinvestment allowance	Yes	No	Yes	Arrears	Investment tax allowance/ Reinvestment allowance	60% of qualifying capital expenditure can reduce up to 100% of statutory income	60% of qualifying capital expenditure can reduce up to 100% of statutory income
Employment deductions for employment of disabled persons	Limited availability	No	Yes	Arrears	Super deduction on remuneration of disabled employees	200% deduction for qualified renumeration	200% deduction for qualified renumeration

Key: Yes, Limited availability, No, N/A

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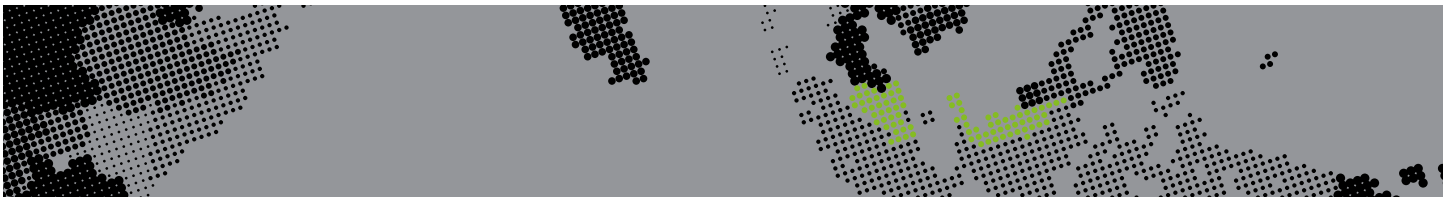

Malaysia

Overview (continued)

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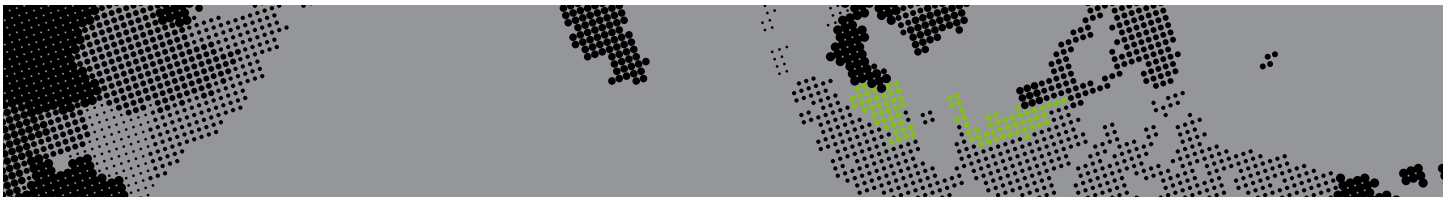
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Environmental sustainability							
Waste eco parks (WEPs)	Yes	No	Yes	Advance	Tax exemption for qualifying waste economic parks' managers, operators, and developers	Tax exemption can offset up to 70% of statutory income	Tax exemption can offset up to 70% of statutory income
Other							
Pioneer status	Yes	No	No	Advance	Tax exemption for companies granted PS status	100% tax exemption	100% tax exemption
Principal hub	Yes	No	Yes	Advance	Reduced tax rates for up to 10 years	Tax rates reduced to 0%–10% if certain conditions are fulfilled	N/A
Information and communication technology	Yes	No	Yes	Advance	Varies	Varies	Varies
Biotechnology	Yes	No	Yes	Advance	Tax exemption for companies granted bionexus status	100% tax exemption	100% tax exemption
Export incentives	Yes	No	Yes	Arrears	Tax exemption computed on the value of the increased exports	Up to 100% tax exemption on the value of the increased exports, limited to 70% of statutory income	Up to 100% tax exemption on the value of the increased exports, limited to 70% of statutory income

Key: =Yes =Limited availability =No =N/A



Malaysia

Malaysia provides tax exemptions for up to 10 years for companies that are granted "pioneer status," as well as a 200% super deduction for qualified research expenses

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R&D tax incentives

Background

The general corporate tax rate in Malaysia is 24%.

R&D incentives include investment tax allowances (ITA) for qualified capital expenditure for assets used in R&D, as well as super deductions for operating expenses incurred in qualifying R&D.

Nature of incentives

Investment Tax Allowance (ITA)

ITAs can be awarded by the Malaysian Investment Development Authority (MIDA) to certified R&D service providers and companies performing in-house R&D.

The ITA typically is granted for 60% of qualifying capital expenditure and can be applied to offset up to 70% of the company's statutory income. A 100% ITA may be granted for selected promoted products and services. The ITA usually is granted for a five-year period or up to 10 years for selected products or activities. Any unutilized allowances may be carried forward to subsequent years until fully utilized.

R&D service providers: An R&D service provider may qualify for a 100% ITA (offsetting otherwise taxable income) on qualifying capital expenditure incurred within 10 years from the date of the first qualifying capital expenditure.

R&D service providers generally must derive at least 70% of their income from R&D activities to qualify for the ITA. R&D service providers must be certified by the MIDA.

In-house R&D: The ITA rate is lowered to 50% of qualifying capital expenditure incurred within 10 years for a company performing in-house R&D on its own behalf.

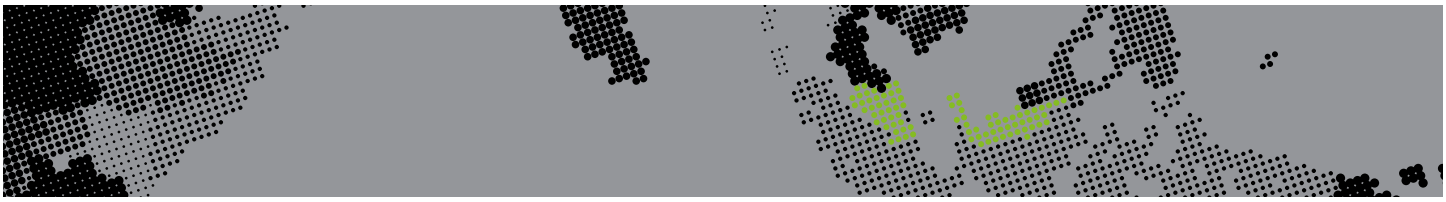
R&D service providers and companies performing in-house R&D may be granted a second round of ITA upon the expiration of the initial incentive period, subject to the government's approval.

Companies in certain industries can benefit from special status, which can grant access to the ITA. For example:

- **ICT**
  Multimedia Super Corridor (MSC) status companies undertaking qualifying activities are eligible for pioneer status (PS), providing up to a 100% tax exemption for 10 years, or an ITA reducing statutory income by up to 100% of qualifying capital expenditure for five years (see the Government Incentives section below for details on MSC status).
- **Green technology incentive**
  - Companies undertaking green technology projects related to renewable energy, energy efficiency, green building, green data centers, and waste management may qualify for an ITA of 100% on qualifying capital expenditure incurred from the 2013 to 2020 years of assessment. This allowance can offset 70% of statutory income.
  - Companies providing green technology services related to renewable energy, energy efficiency, electric vehicles, green building, green data centers, green certification and verification, and green townships may qualify for a 100% income tax exemption on statutory income from the 2013 to 2020 years of assessment.
  - Companies that purchase green technology assets listed in the MyHijau Directory may qualify for an ITA of 100% on qualifying capital expenditure incurred on green technology assets not earlier than 25 October 2013 to the 2020 year of assessment. This allowance offsets 70% of statutory income.

Pioneer Status (PS)

The Minister of Finance can grant PS to companies that derive income from certain activities and products that benefit the Malaysian economy. Among the promoted industries that may qualify for PS are manufacturing, tourism, agricultural, R&D, education, and healthcare. Promoted "activities" and "products" are determined by the minister and are published in the government gazette. R&D companies, high tech companies, software development companies, and manufacturing companies capable of producing world-class products typically are granted PS.



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R&D tax incentives (continued)

PS provides taxpayers with a corporate income tax exemption of either 70% or 100% for a period of up to 10 years, depending on the industry.

A contract R&D company that provides R&D services in Malaysia to a company other than its related company may opt between PS or ITA incentives:

- *PS:* Income tax exemption of 100% of statutory income for five years. Unabsorbed capital allowances and accumulated losses incurred during the pioneer period may be carried forward and deducted from the post-pioneer income of the company.
- *ITA:* 100% allowance on qualifying capital expenditure incurred within 10 years. The allowance may be offset against 70% of the statutory income for each year of assessment. Any unutilized capital allowances may be carried forward to subsequent years until fully utilized.

If certain conditions are satisfied, companies that invest in a subsidiary company engaged in the commercialization of R&D findings of public research institutions are eligible for a tax deduction equal to the amount of investment made in the subsidiary. Moreover, a 100% corporate income tax exemption may be granted to the subsidiary company for up to 10 years.

Approved R&D expenditure incurred during the tax relief period for companies granted PS can be accumulated and deducted after the tax relief period ends.

200% super deduction

In-house R&D projects: A company performing in-house R&D projects may claim a 200% super deduction for non-capital expenditure incurred in qualifying R&D if approved by the Director General of the Inland Revenue Board (IRB).[1] For FYs 2016 to FY 2018, SMEs are entitled to an "automatic" 200% super deduction of up to RM 50K per year for in-house R&D projects.

Other R&D projects: The 200% super deduction also may be claimed for the services of approved research institutions, approved research companies, R&D companies, or contract R&D companies.

If an R&D service provider performs qualifying services for a related company, it can elect to forgo the ITA, thereby allowing the related company to claim the 200% super deduction for the amounts paid to the related R&D service provider.

Additionally, the super deduction can be claimed for cash contributions or donations to approved research institutions.

Eligible industries and qualifying costs

Qualified research, in general, is defined as "any systematic or intensive study undertaken in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, or processes."

Qualifying expenditure for the ITA includes factory costs and plant and machinery costs incurred directly for the purposes of R&D. Qualifying expenditure for the in-house R&D super deduction includes wages, supplies, technical services, technical costs, transportation costs, maintenance costs, rents, and other expenditure incurred directly for the conduct of qualified research.

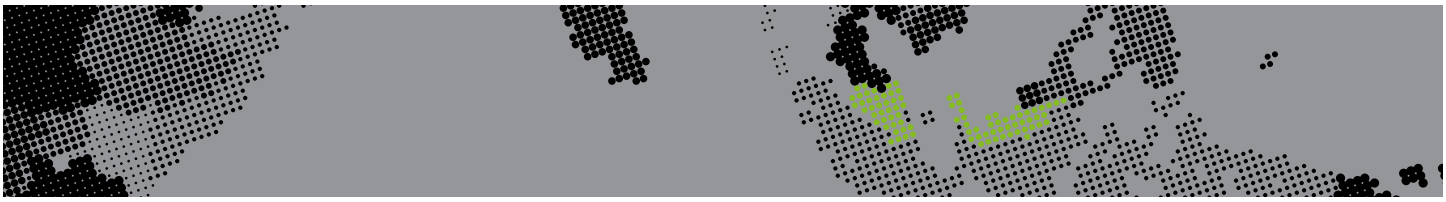
IP and jurisdictional restrictions

Expenditure incurred on R&D activities undertaken outside of Malaysia, including the training of Malaysian staff, may be considered for the 200% super deductions on a case-by-case basis. Payments for technical services performed outside of Malaysia may qualify for the super deduction if the amount expensed is not more than 70% of the total allowable expenditure for the super deduction.

Other concerns

As noted, in-house R&D projects must be pre-approved by the IRB before the 200% super deduction will be granted.

1. The authority to grant super deductions and other incentives is granted to the Minister of Finance, who has delegated that authority to the Director General of the IRB.



Malaysia

Each economic region in Malaysia offers customized incentives on a case-by-case basis, in addition to variety of federal government incentives

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Government incentives

Investment

CAPEX—Reinvestment allowance (RA)

The RA is an incentive available to manufacturing/agriculture companies that reinvest their capital to embark on a project for the expansion of existing production capacity, the modernization or automation of the production facilities, or the diversification into related products. The RA is 60% of qualified capital expenditure and may be used to reduce up to 70% or 100% of the statutory income attributable to qualifying projects. The RA is granted for a period of 15 years.

Employment Deductions for Employment of Disabled Persons

Remuneration expenses that are tax deductible will be allowed an additional tax deduction up to 200% if the remuneration is paid to an employee who is physically or mentally disabled. To qualify for the additional deduction, the person claiming the deduction must prove to the satisfaction of the IRB that the employee is physically and mentally disabled and is not able to perform the work of a non-disabled person.

Environmental sustainability

Waste eco parks (WEPs)

WEP tax incentives are available to WEP developers, WEP managers, and WEP operators.

For WEP developers and managers, tax incentives are effective from the 2016 to 2025 years of assessment:

- WEP developers may qualify for an income tax exemption of 70% on statutory income derived from the rental of buildings, a waste receiving and separation facility, and waste water treatment facility located in the WEP.
- WEP managers may qualify for an income tax exemption of 70% on statutory income derived from services related to the management, maintenance, supervision, and marketing of a WEP.

WEP operators may qualify for an income tax exemption of 100% on statutory income derived from qualifying activities undertaken in the WEP, or an ITA equivalent to 100% of qualified capital expenditure incurred within a period of five years. This allowance may be offset against 70% of statutory income.

Other

Principal hub

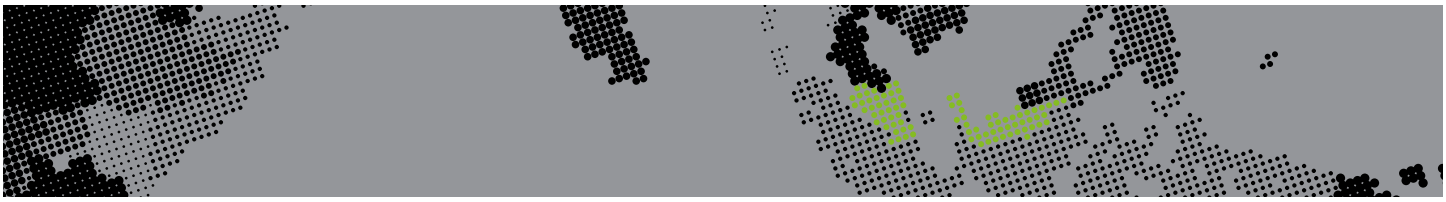
A principal hub is a locally incorporated company that uses Malaysia as a base for conducting its regional and global businesses and operations to manage, control, and support its key functions including the management of risks, decision-making, strategic business activities, trading finance, management, and human resources.

Principal hubs are granted concessionary tax rates of 0%, 5%, and 10% for up to 10 years, subject to satisfying conditions, such as the number of qualifying services that are performed and the fulfillment of employment requirements. Principal hubs also may be: (i) granted customs duty exemptions; (ii) exempt from local equity/ownership requirements; (iii) granted expatriate posts; (iv) allowed to use foreign professional services; (v) allowed to acquire certain fixed assets despite its foreign-owned status; and (vi) provided flexibility in foreign exchange administration.

This incentive is available only for large companies that are looking to move their headquarters to Malaysia.

Information and communication technology (ICT)

Multimedia Super Corridor (MSC) Malaysia status is granted by the Malaysia Digital Economy Corporation (MDEC) to companies that participate and undertake ICT activities.



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Government incentives (continued)

Benefits are backed by the government's Bill of Guarantees, which include duty-free importation of multimedia equipment, no censorship of the internet, world-class physical and IT infrastructure, and globally competitive telecommunication tariffs and services, among others. MSC Malaysia status companies must be located in MSC-designated cybercities/cybercenters to be able to realize the full benefits.

MSC Malaysia status companies undertaking qualifying activities also are eligible for PS or the ITA.

Biotechnology
Companies undertaking biotechnology activities that have been approved with "bionexus" status by the Malaysian Biotechnology Corporation Sdn Bhd may qualify for a tax exemption of 100% of statutory income for a period of five or 10 years, or a 100% allowance on qualified capital expenditure incurred within a five-year period. When the tax exemption period expires, a bionexus company is granted a concessionary tax rate of 20% on income from qualifying activities for 10 years.

Export incentives
Companies that export manufactured products or agricultural produce may qualify for income tax exemptions ranging between 10% and 100% of the value of the increased exports. This incentive is restricted to 70% of statutory income in an assessment period and also is subject to conditions.

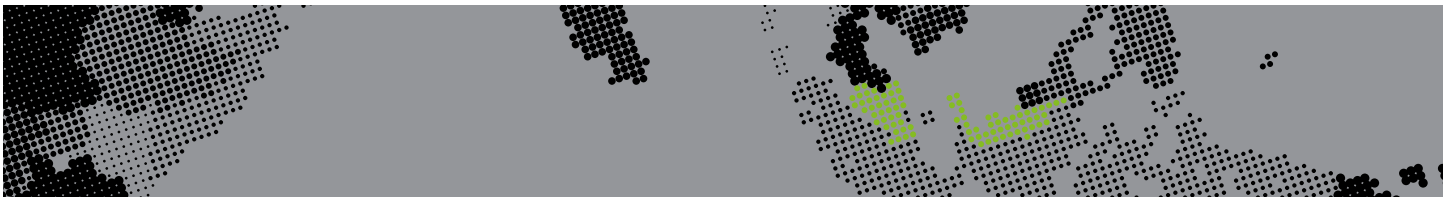
Special economic regions
Each economic region offers customized incentives on a case-by-case basis, depending on the proposed business activities. This is in addition to the existing incentives given by the Malaysian government. The specialized economic regions are as follows:

- Iskandar Malaysia
- Northern Corridor Economic Region (NCER)
- East Coast Economic Region (ECER)
- Sabah Development Corridor
- Sarawak Corridor of Renewable Energy

Approved Service Projects (ASPs)
Companies undertaking ASPs in the service sector in relation to transportation, communications, utilities, or any other sub-sector approved by the Minister of Finance may qualify for PS (70% for five years) or an ITA of 60% on the qualified capital expenditure incurred within five years, limited to offsetting 70% of statutory income.

PS status and the 100% ITA are available if the approved service project is of national and strategic importance.

An exemption from import duty and excise duty may be granted to ASPs on raw materials, components, machinery, equipment, spare parts, and consumables.



Mexico

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Limited availability	Yes	Advance	Tax credit	MXN 50M	MXN 50M
PROSOFT	Yes	Limited availability	Yes	Advance	Cash grant	MXN 25M	MXN 19M
R&D grant (national)	Yes	No	Yes	Advance	Cash grant	No limitation, but subject to budget	No limitation, but subject to budget
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
Employment	Yes	Yes	Yes	Advance	Programs vary by state, but include cash grants, tax credits, and grants in kind	Varies	Varies
Training	Yes	Yes	Yes	Advance	Scholarships	Varies	Varies
Special economic zones	Yes	Yes	No	Advance	Various tax, customs, and regulatory benefits	No limitation	No limitation
Environmental sustainability							
Environmental sustainability	Yes	No	No	Advance	Accelerated depreciation for equipment	100% depreciation of the costs	100% depreciation of the costs

Key: Yes, Limited availability, No, N/A

Notes:

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4. Accelerated depreciation: Full depreciation in the year of acquisition is provided to investments in machinery and equipment for energy generation from renewable sources and in cogeneration systems of efficient electricity.

Mexico

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Other							
Program for Industrial Productivity and Competitiveness	Yes	No	Yes	Advance	Cash grant	MXN 10M per taxpayer in given FY	MXN 10M per taxpayer in given FY
Film incentive	Yes	No	Yes	Advance	Tax credit	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and capped at MXN 50M	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and capped at MXN 50M
Incentive for theater, visual arts, dance, and music productions	Yes	No	Yes	Advance	Tax credit	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and capped at MXD 2M	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and capped at MXD 2M
Incentive for high performance athletes	Yes	No	Yes	Advance	Tax credit	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and MXN 20M in given FY (but may be higher in special cases)	Cannot exceed 10% of taxpayer's corporate income tax liability of previous FY and MXN 20M in given FY (but may be higher in special cases)
Environmental sustainability							
Excise tax incentive for acquisition of diesel, biodiesel, and fossil fuels	Yes	No	Yes	Arrears	Tax credit	No limitation	No limitation

Key: =Yes =Limited availability =No =N/A

Notes:

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Mexico

Mexico offers a 30% R&D tax credit for qualified expenditure

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R&D tax incentives

Background

The corporate tax rate in Mexico is 30%. A new R&D tax credit applies as from 1 January 2017.

Nature of incentives

R&D tax credit

The R&D tax credit may be applied against the corporate income tax liability of the fiscal year (FY) in which the credit is computed, and is equivalent to 30% of expenses and investments for technological R&D carried out in Mexico. The expenses and investments must be directly and exclusively applied to the taxpayer's own projects aimed at the development of products, materials, or production processes that represent scientific or technological breakthroughs.

The R&D tax credit is computed on the incremental amount in qualifying expenses over the average amount of qualifying expenses in the prior three FYs, as illustrated in the following example:

R&D expenses and investments of three previous FYs				Current R&D expenses and investment		R&D tax credit
FY1	FY2	FY3	Average	Current FY	Incremental	
40	20	60	40	100	60	18

If the credit cannot be utilized in the current year, it may be carried forward for 10 years.

For a project to qualify for the research credit, it must be approved by an Inter-agency Committee comprised of:

- National Council of Science and Technology (CONACYT);
- Ministry of Economy;
- Executive branch of government;
- Tax Administration Service (SAT); and
- Ministry of Finance.

The Inter-agency Committee publishes (by the end of February each year) a list of projects and amounts that were authorized during the previous FY, including the names of the taxpayers that were selected as beneficiaries.

Taxpayers selected by the Inter-agency Committee must:

- Comply with the general rules published by the committee and the technical provisions in the operating guidelines published by CONACYT;
- Submit a report outlining the impact and benefit resulting from the approved R&D projects in January of the FY following the R&D tax credit year;
- Submit an information return each February disclosing the expenses incurred and investment made in connection with the authorized technological R&D project, which must be certified by a registered CPA; and
- Maintain a computer system that tracks the expenses and investment items that have been authorized and that is made available on a permanent basis to the SAT.
- Accept technical visits from the CONACYT and comply with any additional requests for information, etc.
- Keep as part of their accounting records the documentation submitted to the Inter-agency Committee for the authorization and follow-up of the R&D tax credit, along with the documents the committee sends to them.
- Register in Mexico the patentable breakthroughs resulting from the authorized projects.
- Comply with commitments relating to deliverables of the authorized projects.

The Inter-agency Committee published the general rules governing the R&D tax credit on 28 February 2017. The rules provide that taxpayers must submit their requests electronically and attach

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R&D tax incentives (continued)

certain documents in PDF format (e.g., an opinion of good standing related to compliance with tax obligations; the annual tax returns for the prior three FYs; breakdown of the R&D expenses for the last three FYs; a document setting out commitments for the development of prototypes, patent registration, and IP registration in Mexico. Requests for the R&D tax credit must be submitted during the period 1 March to 30 April of the relevant FY.

The total budget per FY is MXN 1,500M, and the maximum amount of R&D tax credit that can be applied by a taxpayer in a given FY is MXN 50M.

Eligible industries and qualifying costs

The R&D tax credit is not limited to specific industries.

Eligible expenditures include:

- Fees paid to external researchers;
- Experimental testing;
- Field work;
- Tools for experimental testing;
- Technical training that is essential for the R&D project;
- Specialized equipment that is essential to the R&D project;
- External services provided by Mexican third parties;
- Specialized lab equipment that is essential to the R&D project;
- Specialized machinery that is essential to the R&D project;
- Animals or plants that are essential to the R&D project for experimental testing;
- Lease of specialized equipment that is essential to the R&D project;
- Prototypes;
- Materials for experimental design;
- Collaboration costs paid to Mexican private or public Higher Education Institutions and/or Public Research Centers, registered in the National Registry of Scientific and Technological Institutions and Companies (RENIECYT)
- Experimental pilot plants; and
- Payment for services rendered by Mexican research centers authorized by CONACYT.

Ineligible expenditures include:

- Civil engineering works (except for pilot plants);
- Acquisition and/or leased of immovable property;
- Administrative expenses (e.g., utilities, administrative employees);
- Manufacturing expenses;
- Equipment maintenance;
- Salaries and wages related to the R&D project paid to the taxpayer's employees;
- Marketing expenses;
- Expenses for studies or permits related to federal, state or municipal regulations;
- Freight expenses;
- Loss reserves;
- Interest;
- Buying-selling of currency;
- Financial expenses;
- Taxes;
- Fines, surcharges and penalties;
- Expenses financed by other CONACYT or federal government incentive programs; and
- Payments made to third parties to prepare the project and/or carry out follow-up.

IP and jurisdictional restrictions

The R&D activities must take place within Mexico and the patents and IP rights must be registered in Mexico.

Other concerns

Failure to comply with all applicable requirements and to complete the project's closing process will result in the recipient being liable for the amount of the tax credit, and potentially could hinder the applicant's possibilities of being awarded the R&D tax credit in subsequent FYs.

Mexico

Wide varieties of targeted incentives encourage specific types of economic development

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Government incentives

Innovation

Traditional cash grants provided by CONACYT

Contrary to the initial expectation that the R&D tax credit introduced in 2017 would replace the cash grants provided by CONACYT for R&D and innovation projects, the government decided to retain both programs.

The cash grant program provides grants equivalent to a certain percentage of qualifying expenses.

There are three categories of grants:

- **INNOVAPYME:** Oriented to micro, small, and medium-sized enterprises (MIPYMES) for activities preferably performed in conjunction with higher education institutions or research centers.
- **PROINNOVA:** Supports MIPYMES and large companies. Proposals must involve collaborative research with at least two higher education institutions, or two research centers, or one of each.
- **INNOVATEC:** Grants economic support exclusively to large companies that meet the eligibility requirements. Proposals may be individual or in collaboration with higher education institutions or research centers.

Invitations usually open in August or September and close in October. Results typically are published in February of the following FY and cash grants are transferred to awarded companies beginning in March. The projects must be executed and the awarded grants disbursed during the FY following that in which the invitation is published (1 January to 31 December).

The cash grants range from 25% to 70% of eligible R&D expenses paid by the Mexican company with caps ranging from MXN 15M to MXN 25M, depending on the program and whether the proposal is individual or in collaboration with others. The largest grants are awarded for collaborative research conducted with a research centers or higher education institutions.

This program is not limited to specific industries.
Qualifying expenses are similar to those under the R&D tax credit, with one of the main differences being that salaries and wages (except outsourcing) are qualifying expenses under the CONACYT R&D cash grant program. Ineligible expenses also are similar to those under the R&D tax credit.

The R&D activities must take place within Mexico and the patents and IP rights must be registered in Mexico.

Increased importance has been given to demonstrating that the project would result in something significantly above the current state-of-the-art, and to how the IP resulting from the projects will be protected.

Program	Company size	Program support			Maximum amount of grant per company (MXP)
		Individual project	Collaboration project with Higher Education Institutions (HEIs) or Research Centers (RCs)		
		Percentage of company's eligible expenses	Percentage of company's eligible expenses	% of HEIs and/or RCs cost	
INNOVAPYME	MIPYMES	30%	35%	70%	15 M
INNOVATEC	Large companies	25%	30%	70%	25 M
PROINNOVA	MIPYMES	N/A	50%	70%	19 M
	Large companies		35%		

PROSOFT

Based on the PROSOFT operating rules for FY2017, the program is aimed at developing a strong, competitive, and global IT sector in Mexico, by supporting companies from strategic sectors to develop innovation ecosystems through triple-helix collaborations (i.e., private sector, government, and the academic sector). The program is managed by the Ministry of Economy.

Mexico

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Government incentives (continued)

PROSOFT provides cash grants for up to 70% of eligible expenses. Eligible expenses include support for establishing public or semi-public innovation centers (e.g., specialized training, consulting, technical equipment, and software, as well as set-up costs); adoption of certain IT tools, including prototype development and the transfer of technology; specialized training for human resources in the operating, technical, and engineering fields; financing for start-ups; benchmarking and market strategy studies; specialized consulting services; and costs for participating in IT events.

To qualify for a PROSOFT grant, the beneficiary must cover the remaining part of the project's total investment not funded by the program, be current on its tax obligations, and not duplicate benefits derived from other federal programs that provide funding or other incentives.

The FY 2018 operating criteria and Invitation are pending publication; once published, the details on opening and closing dates will be announced. The window for submitting applications for the FY 2017 invitation was July to September, but since the budget is assigned on a first-come, first-serve basis, projects that are filed closer to the invitation opening have a greater chance of being awarded, since the budget may be depleted before the closing of the invitation. Upon satisfactory submission, PROSOFT must issue a formal answer within the following 30 days. Awarded projects must be carried out by 31 December of the FY of the invitation, unless the project is divided into phases (up to three FYs). Any amount of the cash grants that is not utilized by year-end must be reimbursed.

Any benefit obtained by an applicant through the R&D tax credit or PROSOFT is subject to special control measures and potential audits. In addition, tax reports issued by an authorized CPA, covering 100% of the expenses and investments, must be filed as part of the projects' closing procedure.

Investment

Employment incentives

Expansion projects may benefit from discretionary local grants and incentives that are negotiated with local governments. The grants and incentives may vary depending on the particular state, but may include the following: cash grants for job creation in the state (fixed amount per new employee); free training programs for employees in public universities; temporary reduction in, or exemption from, local taxes (e.g., payroll tax, real estate tax); obtaining land for no consideration or at a reduced price; grants for required infrastructure; soft landing costs for employees; and free participation in state events (or participation at a reduced price).

Federal incentives are also provided for employers hiring impaired individuals (deduction of 100% of the income tax withheld on the salary of such employees) or the elderly (additional deduction equal to 25% of paid salary).

Special Economic Zones (SEZ)

The government has embarked on an SEZ program to boost economic growth in the southern states of Mexico through the implementation of a package of tax, customs, regulatory, financial, and infrastructure benefits for investors that decide to establish business in such zones. Three SEZ have been launched: Puerto Chiapas, Coatzacoalcos and Lázaro Cárdenas–La Unión. More SEZs expected to be declared in the near future (e.g., Campeche-Tabasco, Hidalgo, Puebla, Salina Cruz and Yucatan).

Some of the main benefits granted in the SEZ are as follows:

- A 100% reduction of income tax on income derived from economic productive activities carried out within the SEZ for the first 10 FYs and a 50% reduction for the following five FYs;
- An additional deduction of 25% of technical training costs for employees working in the SEZ, subject to certain requirements;

Mexico

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Government incentives (continued)

- A tax credit against income tax, equal to 50% of the social security contributions effectively paid in connection with employees working in the SEZ for the first 10 FYs, reducing to 25% for the following five FYs;
- A 0% VAT on supplies of goods by taxpayers resident outside the SEZs to Investors and Integral Administrators in the SEZ, and on the provision of services directly related to economic productive activities carried out in the SEZ and the lease of goods in the SEZs.
- Investors or Integral Administrators in the SEZ that purchase goods to be brought into the SEZ and for which suppliers charged the standard 16% VAT may request a VAT refund (if they only carry out activities in the SEZ) or credit the VAT against taxable activities carried out outside the SEZs.
- Transactions carried out within the SEZ will not be taxable for VAT purposes, and taxpayers that carry out the transactions will not be considered VAT taxpayers.
- A special customs regime for goods imported into the SEZ.

Environmental sustainability

Investments in machinery and equipment for energy generation from renewable sources and in cogeneration systems of efficient electricity can qualify for 100% depreciation in the year of acquisition.

Excise tax incentive for acquisition of diesel, biodiesel, and fossil fuels
Tax credits against corporate income tax are available for excise tax paid on the acquisition of diesel and biodiesel as fuel for machinery; diesel used as fuel for public and private transportation of goods or persons; and certain fossil fuels used in production processes to produce other goods (not used for combustion).

Other

Program for Industrial Productivity and Competitiveness
This program provides cash grants for up to 50% of eligible expenses incurred to advance the goal of integrating more companies into value chains, and to increase their productivity and competitiveness. Some of the eligible items are specialized: training and certifications; design and implementation of strategies aimed at promoting industry sectors; design of methodologies for product differentiation; equipment for innovation and/or design centers; and equipment for training centers. These cash grants are not taxable for income tax purposes. The maximum amount that can be granted is MXN 10M per taxpayer in a given FY.

Film incentive
A tax credit reducing corporate income tax is provided for contributions made by taxpayers to Mexican film projects. The tax credit cannot exceed 10% of the taxpayer's corporate income tax of the previous FY and MXN 50M in a given FY, with the possibility of a 10-year carryforward. The investment must be made in Mexico. An Inter-agency Committee is responsible for evaluating and awarding the projects.

Incentive for theater, visual arts, dance, and music productions
A tax credit that reduces the corporate income tax liability is provided for contributions made by taxpayers to theater, visual arts, dance, and music productions. The tax credit cannot exceed 10% of the taxpayer's corporate income tax of the previous FY and MXN 2M in a given FY, with the possibility of a 10-year carryforward. The investment must be made in Mexico. An Inter-agency Committee is responsible for evaluating and awarding the projects.

Incentive for supporting high performance athletes
This tax credit, which applies as from 2017, reduces corporate income tax liability for contributions made by taxpayers to highly specialized infrastructure and sports facilities, and to programs designed for the development, training, and competition of Mexican high performance athletes. The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability of the previous FY and MXN 20M in a given FY, with the possibility of a 10-year carryforward. The investments must be made in Mexico. An Inter-agency Committee is responsible for evaluating and awarding the projects.

Netherlands

Overview

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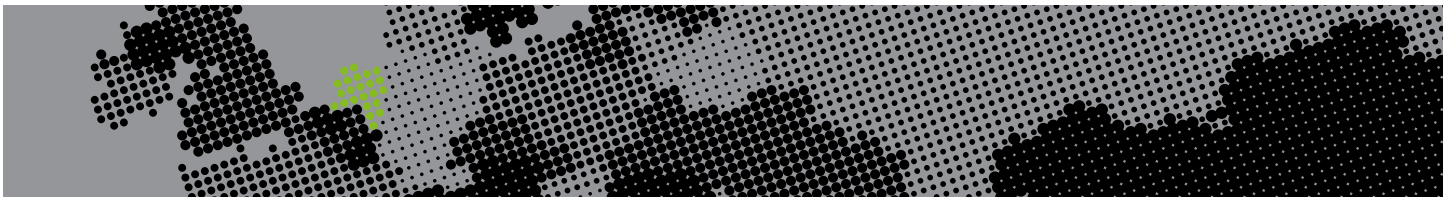
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	Yes	Advance	Wage tax credit	31% of qualifying wages up to EUR 350K and 14% of remaining qualifying wages	40% of qualifying wages up to EUR 350K and 14% of remaining qualifying wages
R&D grant (national)	Yes	Yes	Yes	Advance	Cash grants	Varies (between 15% and 50% funding, depending on the program)	Varies (between 15% and 50% funding, depending on the program)
R&D grant (EU)	Yes	Yes	Yes	Advance	Cash grants	Varies (between 15% and 50% funding, depending on the program)	Varies (between 15% and 50% funding, depending on the program)
Patent box	Yes	Yes	No	Advance and arrears	Reduced corporate income tax rate on innovative profit	5% corporate tax rate instead of 25% for qualifying income, no cap	5% corporate tax rate instead of 25% for qualifying income, no cap

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



Netherlands

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
Top sector	Yes	Yes	Yes	Advance	Cash grants	Varies from (limited) fixed amount per applicant to percentage of project costs	Varies from (limited) fixed amount per applicant to percentage of project costs
Operational Program (OP)	No	Yes	Yes	Advance	Cash grants	Varies, 35%–70% of project costs up to EUR 2.5M	Varies, 35%–70% of project costs up to EUR 2.5M
INTERREG	No	Yes	Yes	Advance	Cash grants	Varies, up to 85% of eligible costs	Varies, up to 85% of eligible costs
Employment	Limited availability	Yes	Yes	Advance	Tax credit/ Cash grants	Varies	Varies
Training	Yes	Yes	Yes	Advance	Tax credit/ Cash grants	Varies	Varies
Environmental sustainability							
Renewable Energy (SDE+)	Yes	Yes	Yes	Advance	Cash grant, exploitation grant	Difference between the price of renewable energy and normal (grey) energy, produced by the applicant over a period up to 12 years	Difference between the price of renewable energy and normal (grey) energy, produced by the applicant over a period up to 12 years
Energy Investment Allowance (EIA)	Yes	Yes	Yes	Advance and arrears	Tax deduction and accelerated depreciation	58% of the investment costs may be deducted from taxable profit	58% of the investment costs may be deducted from taxable profit
Environment Investment Tax Deduction (MIA) and arbitrary depreciation of environmental investments (Vamil)	Yes	Yes	No	Advance and arrears	Tax deduction and accelerated depreciation	Approximately a 9% net benefit for qualifying expenditure	Approximately a 9% net benefit for qualifying expenditure

Key: =Yes =Limited availability =No =N/A

Netherlands

The Netherlands offers a variety of R&D incentives, including an innovation box and reduced wage tax and social security contributions

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R&D tax incentives

Background

The Netherlands' top corporate tax rate is 25% (a 20% rate applies to income up to EUR 250K). The government has announced its plan to gradually reduce the corporate tax rate to 21% in 2021. A 16% rate would apply to income up to EUR 250K.

Nature of incentives

WBSO

The WBSO Act (R&D promotion law) provides a tax credit for companies in the Netherlands that conduct qualifying research. Qualifying activities include systematic and organized endeavors performed in the EU by an individual or a legal tax-paying entity in the Netherlands for the purpose of advancing:

- Applied/scientific research; and/or
- The development of technically new products, physical processes at a production facility, or computer programs, or components thereof.

The credit is computed on wages paid to R&D personnel and other R&D expenditure (including capital expenditure) at the following percentages:

- *Established companies:* 31% of the first EUR 350K;
- *Start-up companies:* 40% of the first EUR 350K; and
- 14% on qualifying costs exceeding EUR 350K.

The following requirements must be met to benefit from the WBSO tax credit:

- The R&D project must be novel for the company undertaking the R&D;
- The R&D activities must be performed in the EU by employees on the payroll of the Dutch company;
- Applications must be submitted at least one calendar month before activities start;
- The Minister of Economic Affairs must issue a decision on the WBSO credit; and
- R&D documentation must be maintained demonstrating the (i) nature and content of the R&D activities performed; (ii) the time spent per day performing R&D; and (iii) the progress of the R&D undertaken.

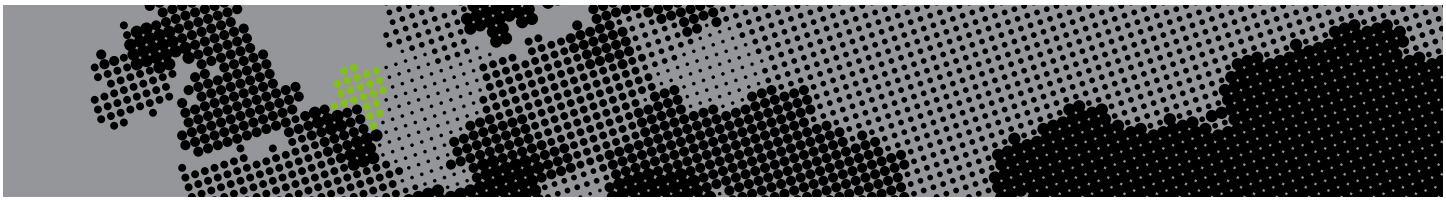
Innovation box

The innovation box offers a 7% effective corporate tax rate on income attributable to innovations. There is no cap on the amount that may be allocated to the innovation box.

Changes were made to the innovation box as from 1 January 2017 to bring the regime in line with the recommendations in action 5 of the OECD BEPS project. The main change is the introduction of stricter substance requirements (i.e., ownership of the intangibles and R&D carried out in the Netherlands), in conjunction with the introduction of a "nexus-based" approach.

Other notable changes include the following:

- New criteria apply for SMEs and large taxpayers to access the innovation box regime. Large companies must have worldwide revenue at a controlled group level exceeding EUR 250M or gross income from intangible fixed assets for each of the preceding five years exceeding EUR 37.5M. Companies not meeting these thresholds are considered SMEs.



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R&D tax incentives (continued)

- Both categories of taxpayer must obtain an R&D certificate for the development of the relevant intangible asset. For large taxpayers, an additional condition applies: only income from patents, utility models, software, plant breeders' rights, and pharmaceutical certifications qualify for the innovation box regime. A small taxpayer may include unprotected IP in the innovation box regime.
- Large companies must own the patents or other IP assets that are functionally equivalent (e.g., utility models, plant variety rights, orphan medicines, and additional protection certificates). Income attributable to software developed through R&D activities qualifying for WBSO certification will always qualify for the innovation box, i.e., no patent will be necessary. SMEs, however, may include unprotected IP, i.e., a SME need not own a patent or other designated non-patented invention.
- Qualifying expenditure for the purposes of the innovation box is limited to R&D expenditure incurred by the company itself and expenditure where the R&D is outsourced to an unrelated party (expenditure on R&D outsourced to a related party does not qualify). Partly outsourced R&D will result in a lower benefit of the innovation box.

The changes to the innovation box apply to fiscal years starting on or after 1 January 2017. However, a transitional regime applies to intangible assets created before 30 June 2016, i.e., qualifying assets may continue to benefit from the previous regime until 1 July 2021. Further, patented intangible assets or breeders rights developed before 1 January 2017 will be considered qualifying intangibles under the new regime, even if an R&D certificate has not been issued.

Eligible industries

The WBSO and innovation box are open to all industries.

IP and jurisdictional restrictions

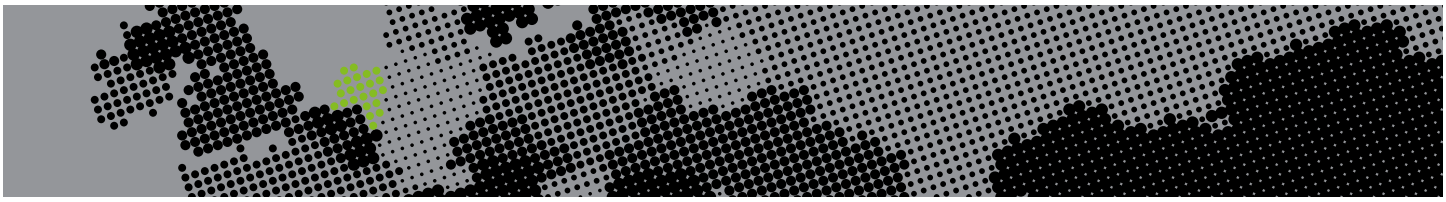
WBSO

To claim the WBSO, the R&D activities must take place within the EU and must be performed by employees on a Dutch payroll. There are no restrictions regarding the location of the IP.

Innovation box

For the innovation box, a qualifying intangible must be developed at the risk of, and for the benefit of, a Dutch company. As noted above, ownership (or an exclusive license) of the qualifying IP asset is an important consideration.

The innovation box is intended only for companies with a substantial economic presence in the Netherlands. In this respect, the nexus approach solely affects the innovation box benefits if more than 23% of the R&D costs is outsourced to related parties (permanent establishments excluded).



Netherlands

The Netherlands has a strong package of tax measures to stimulate environmentally-friendly investments, as well as incentives encouraging CAPEX, employment, and innovation

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Government incentives

Investment

Top sector policy

The Dutch top sector policy is aimed at economic sectors that are the most important to the international competitive position of the country, such as knowledge-intensive and export-oriented sectors. Funding support varies per sector and call for proposal. The nine relevant sectors include: agriculture and food; chemicals; creative industries; energy; high tech systems; life sciences and health; logistics; horticulture and feedstock; and water.

The grant opportunities offered by the top sector program vary from (collaborative) innovation grants to knowledge development. Most of the grant programs focus on SMEs, except for the energy sector, which offers incentives to both SMEs and large companies.

Operational programs (OP)

The European fund for regional development enables European countries to independently create grants and incentive programs focused on regional development. The Netherlands has divided these programs into four regionally focused clusters. The OPs stimulate collaborative innovation and the transition to a carbon-free economy. The amount of the grant varies per call for proposal, and the total budget available to the Netherlands during the period 2014 to 2020 is EUR 500M.

INTERREG

The INTERREG program supports inter-regional cooperation in the EU. INTERREG is structured around three strands of cooperation: cross-border (INTERREG A), transnational (INTERREG B), and inter-regional (INTERREG C). Grant opportunities must align with four policy themes: research and innovation, competitiveness of SMEs, low-carbon economy, and environmental and resource efficiency. The program funds up to 85% of project costs, depending on the type of action within the INTERREG program.

Employment and Training—Sustainable employability

The Dutch government provides several grants and incentives stimulating sustainable employability. For instance, the supervision of students performing an internship or on the job training with a company can be funded up to EUR 2,300 per person.

Environmental sustainability

Renewable energy credit (SDE+)

The SDE+ stimulates renewable energy production by compensating for the difference between the cost price of "grey" energy (such as fossil fuel) and sustainable energy. The grant supports exploitation for five, eight, 12, or 15 years, depending on the type of renewable energy. Renewable energies eligible for compensation are electricity, gas, heat, or energy produced from biomass, geothermics, water, wind, and sun. SDE+ is a phased grant that opens twice a year.

Energy Investment Allowance (EIA)

The EIA supports companies in their investments in energy-saving business assets and sustainable energy.

Through the EIA, 58% of the investment costs may be deducted from taxable profit. This percentage is adjusted annually based on government review and available budget. This incentive results in a net tax benefit of about 14% in 2017. To use the deduction, the business asset must meet the requirements of the energy list.

Environment Investment Tax Deduction (MIA) and arbitrary depreciation of environmental investments (Vamil)

The Netherlands offers a package of tax measures to stimulate environmentally friendly investments by companies in the country via the MIA and the Vamil. The MIA provides an additional tax deduction of 13.5%, 27%, or 36% of the investment in business assets as stated on the environment list, depending on the category.

The Vamil allows an immediate depreciation of 75% of investments in environment friendly equipment. While the regular depreciation thereafter is lower, the accelerated depreciation provides a time-value benefit.

Norway

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Advance[4]	Tax credit	18% tax credit	20% tax credit
R&D grant (national)	Yes	Yes	Yes	Varies	Grants, loans and other	Varies	Varies
R&D grant (EU)	Yes	No	Yes	Varies	Grants, loans and other	Varies	Varies
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Environmental sustainability							
Green certificates for energy suppliers and certain electricity customers	Yes	No	Yes	Varies	Green electricity certificates awarded for production of renewable energy	Varies	Varies
Enova	Yes	No	Yes	Advance	Financial support for energy and climate friendly initiatives through financial grants and loans	Varies. No distinction is made between large and small-and medium-sized enterprises	Varies. No distinction is made between large and small-and medium-sized enterprises

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. An application needs to be submitted to the Research Council of Norway. The application may cover expenditures for the year of application; please see details in write-up.

Norway

Norway offers a refundable tax credit for R&D activities

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R&D tax incentives

Background

The standard corporate income tax rate in Norway is 24%. The 2018 national budget proposed a reduction of the rate to 23% taking effect from 1 January 2018.

Nature of incentives

There is a national R&D tax incentive scheme that grants companies a tax credit on approved expenses associated with R&D, which reduces the tax payable. Companies that are classified as small- and medium-sized are entitled to a tax credit of 20% of the total R&D expenditure and companies classified as large are entitled to a tax credit of 18% of the total R&D expenditure.

A company is considered small/medium-sized if it has fewer than 250 employees and its annual sales revenue does not exceed EUR 50M, or the balance in the annual balance sheet does not exceed EUR 43M. The number of employees and financial numbers must be calculated based on the company's annual accounts. All affiliated companies are taken into account in determining whether a company qualifies as a small/medium-sized company, and if the company has business activities regarded as partnership activities or related activities, these also should be included.

The Research Council of Norway must approve projects for a company to qualify for the research credit. Approval can be granted for up to three years. Applications can be filed all year, but if the application is filed before 1 September, the application will be processed before the year end. If the application is approved, all R&D costs incurred in the year the application is filed will be qualifying expenditure. For example, if an application is filed on 1 August 2017 and approved on 1 December 2017, all qualifying costs incurred in 2017 will qualify for the research credit; however, if the application is filed on 1 October 2017 and approved on 1 February 2018, the costs incurred in 2017 will not qualify for the credit.

Qualifying projects are those undertaken to generate new knowledge or acquire new skills in connection with the development of new or improved products, services, or production processes, and where the knowledge/skills will be an advantage to the company. Projects that merely advance business goals, such as company development, employee training, preparation of production facilities, etc., will not qualify.

The excess of the credit over taxes payable will be paid out in cash to the company. Thus, a company with no tax payable can benefit from a full cash credit.

Eligible industries and qualifying costs

All companies are eligible for the tax credit regardless of the industry or the legal form of the company.

Total R&D costs cannot exceed NOK 50M each year. As from 1 January 2017, the tax credit is limited to NOK 25M each year for costs related to self-developed R&D and NOK 50M for costs related to purchased R&D. R&D can be contracted only from R&D institutions that have been approved by the Norwegian Research Council, which includes Norwegian and foreign institutions.

For the costs to be regarded as qualifying expenditure, they must be related to the approved project, and must be considered tax deductible costs under Norway's tax law.

If the costs also relate to business activities not covered by the R&D tax incentive scheme, they must be proportionally allocated between the R&D project and the business activities not covered by the scheme. For example, if equipment is used 50% of the time on the R&D project and 50% in other business activities, the costs must be allocated 50/50 based on the R&D activities and other activities.

The following costs are considered eligible R&D costs: overhead costs, costs for the purchase of R&D services, equipment, technical expertise, patents, etc., and rental of buildings and sites, etc. Labor costs also qualify, but are determined based on the following rules: hourly rates are calculated as 0.12% of the agreed annual salary, but cannot exceed an hourly rate of NOK 600. The qualifying rate then is multiplied by the number of hours worked by the employee on the qualified project, but is limited to a maximum of 1,850 hours per employee.

IP and jurisdictional restrictions

For the R&D scheme to be applicable, the company must be subject to taxation in Norway. The scheme also is available to foreign companies that are subject to taxation in Norway. The qualifying activities can be carried out in Norway or abroad.

There is no IP ownership requirement under the Norwegian R&D tax incentive scheme.

Norway

Government incentives in Norway include funding and loans

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Government incentives

Innovation

R&D grant (EU)

As an EEA member state, Norway participates in the EU program Horizon 2020, which aims to ensure that Europe is a leading player within research and technology by removing obstacles that undermine innovation and by making it easier for the public sector and private sector to deliver common solutions to the challenges Europe is facing. As a member of Horizon 2020, Norwegian companies and research institutions can apply for funding on the same terms as EU members.

R&D grant (national)

There are several national R&D grants available. A public entity called Innovation Norway grants support to R&D upon application and includes loans and guarantees, as well as funding of R&D projects, start-up businesses, and projects to enhance environmental development.

Innovation Norway also provides support regarding R&D to the Research Council of Norway, which evaluates/approves projects qualifying for the R&D tax incentive scheme described above.

The Research Council also provides funding to R&D projects and support to the development of research institutions. The support includes;

- Financing through specific research programs;
- Financing of research institutions;
- Long-term financing of research institutions;
- Financing of investments in research infrastructure, such as equipment, laboratories, databases etc.; and
- Financing of networking programs, such as conferences, seminars, etc.

As from 1 July 2017, Norwegian individual taxpayers are entitled to a tax allowance of up to NOK 500K each year for share deposits in start-up companies. The deposit must be at least NOK 30K to be tax deductible. Each startup company can receive a total of NOK 1.5M annually in deposits that are tax deductible for the shareholders. The deposit can be made upon incorporation of the company or in relation to a share capital increase where the company issues new shares.

The tax scheme applies to private limited liability companies that are tax resident in Norway, as well as private limited liability companies resident in another EEA member state that are taxable in Norway because activities are carried out through a permanent establishment in Norway. The taxpayer can be resident in Norway or abroad.

For the scheme to apply, the start-up company must not be more than six years old, including the year of incorporation and the year in which the share capital increase is registered in the Norwegian companies register. The start-up company's activities must be mainly activities other than passive asset management, and the passive asset management activities may not exceed 10% of the company's total activities.

By the end of the year of incorporation or capital contribution, the company must not have more than 25 employees and its operating income and balance sheet must not exceed NOK 40M. If a public/government body owns a share of the company, this share cannot exceed 24% by year-end.

The company's annual labor costs must be at least NOK 400K. The company must not experience any economic difficulties at the time of the share capital increase.

For the taxpayer to claim a deduction, the shareholder must retain the shares for at least three years, calculated from end of the year of the contribution.

If an individual taxpayer holds shares in a company that makes a share deposit in a start-up company, the individual is entitled to a deduction for the share deposit made by the company in which the taxpayer owns shares. If the company making the contribution has more than one shareholder, each individual shareholder is entitled to the deduction based on his/her ownership share. The investor or a party related to the investor cannot be a current shareholder or employed in the company or another company in the controlled group at the time of the deposit.

Environmental sustainability

Norwegian law implements almost all EU environmental legislation addressing pollution control, water, air, chemicals, waste, environmental impact assessment and genetically modified organisms. However, Norway is not bound by EU legislation with regard to nature conservation, natural resource management, and agriculture and fisheries.

Emission quota system

The Norwegian emission quotas trading system is part of the EU trading emission system. The emission quotas are allocated free of charge and/or auctioned to the companies. Norwegian authorities decide on the maximum permissible emissions for a certain period.

Norway

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Government incentives (continued)

Companies that are part of the emission trading system must file an annual report that discloses the emissions in the preceding year and must submit quotas that equal the emissions. If a company has higher emissions than permitted according to the allocated quotas, it will have to purchase quotas on the market. If a company has lower emissions, it can sell excess quotas on the market. The system thus encourages reducing emissions at the lowest possible cost.

The following industries are covered by the system:

- Energy production;
- Refining of mineral oil;
- Coke production;
- Aluminium production;
- Iron ore—roasting and sintering;
- Cast iron and steel production;
- Cement and lime;
- Glass, fiberglass, ceramic production;
- Wood processing;
- Fertilizer production;
- Offshore petroleum activities; and
- Air traffic services.

The system does not apply to companies that mainly engage in developing and testing new products and processes.

Green certificates for energy suppliers and certain electricity customers
Electricity suppliers and certain electricity customers are required to purchase electricity certificates annually, corresponding to a certain proportion (quota) of their calculation-relevant electricity consumption. These certificates are traded in a free market.

Norway and Sweden have collaborated to develop a green electricity certificates scheme resulting in a common market for trading the certificates. The scheme is a funding system for renewable energy production. The goal is to increase the renewable energy production with 28.4 TWh by 2020. Power plants that are part of the scheme will receive a green energy certificate for every MWh of renewable energy produced, which counts towards their electricity certificate quota. The certificates can be sold on the free market.

Green certificates are issued for the production of renewable energy, including:

- Hydroelectric power;
- Wind power;
- Solar energy;
- Ocean energy;
- Geothermal energy; and
- Bio energy.

The certificates, issued for 15 years, are available to plants that are operational and producing renewable power by 31 December 2021.

Enova
Enova, a state-owned corporation, offers financial support to companies and individuals with respect to energy and climate friendly initiatives. Enova will cover the extra project cost incurred for companies for pursuing energy and climate friendly solutions. In addition, Enova provides funding to individuals for making energy friendly choices in private houses.

Special tax rules for producers of wind power
Special rules apply to the taxation of wind power sites. For example, enterprises engaged in wind power production (only producers of a certain size) are subject to an economic rent tax of 34.3% (2017) and a natural resource tax of 1.3 øre per Kwh.

While assets generally are depreciated based on the declining balance method, certain assets used for the production of wind power can be depreciated based on the straight-line method:

- Dam installations, tunnels, power station buildings, including the tunnel to enter the power station and pipelines (the gates but not the actual pipes) are depreciated over 67 years at a rate of 1.5% per annum; and
- Machine-oriented equipment in power stations, including equipment such as generators and pipes, bushing in tunnels/shafts, etc. are depreciated over 40 years at a rate of 2.5% per annum.

There also are special rules for the realization of assets subject to the special depreciation rules, and in certain cases, assets related to wind power sites can be sold without incurring taxation.

Poland

Overview

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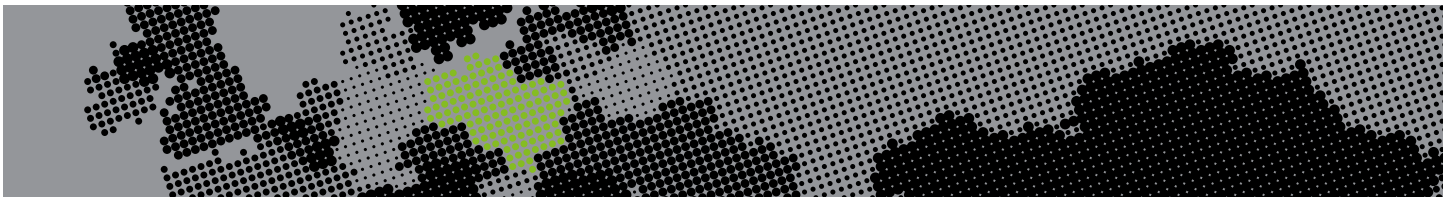
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax deduction	Yes	No	Yes	Arrears	Super deduction	200% of qualifying expenditure (250% for R&D centers)	200% of qualifying expenditure (250% for R&D centers)
R&D grant (national and EU)	Yes	Yes	Yes	Advance	Cash grant	25%–65% of qualifying expenditure, depending on the type of activities	35%–80% of qualifying expenditure, depending on the type of activities and size of company
R&D Infrastructure grant (EU)	Yes	Yes	Yes	Advance	Cash grant	15%–50% (until 2017) and 10%–50% (from 2018) of qualified expenditure, depending on the location of the investment (lower aid intensity for Warsaw)	25%–70% (until 2017) and 20%–70% (from 2018) of qualifying expenditure, depending on the location of the investment and the size of the company
Patent box	No	No	N/A	N/A	N/A	N/A	N/A

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



Poland

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
Polish government grant for CAPEX	Yes	No	Limited availability	Advance	Cash grant	2%–15% of investment expenditure and/or EUR 750 to EUR 3,700 for each new job created	2%–15% of investment expenditure and/or EUR 750 to EUR 3,700 for each new job created
Grant for SMEs (EU)	Yes	Yes	Yes	Advance	Cash grant	N/A	25%–70% of qualifying expenditure, depending on the location of the investment, the type of activities and the size of the company
Special economic zones	No	Yes	No	Advance	Corporate income tax exemption	100% corporate income tax exemption, capped at 15%–50% (until 2017) and 10%–50% from 2018 of qualifying expenditure, depending on the location of the investment	100% corporate income tax exemption, capped at 25%–70% (until 2017) and 20%–70% of qualifying expenditure, depending on the location of the investment and the size of the company
Real Estate Tax (RET) exemption	No	Yes	No	Advance	Real estate tax exemption	Varies	Varies
Employment support	Yes	Yes	Yes	Advance	Varies	Varies	Varies
State Fund for Rehabilitation of Disabled Persons	Yes	No	Yes	Advance	Cash grant	Depending on the nature of the disability, grants cover up to 75% of salary and social security contributions	Depending on the nature of the disability, grants cover up to 75% of salary and social security contributions
Environmental sustainability							
Pro-environmental incentives	Yes	Yes	Yes	Advance	Varies (grants, loans, and other financial instruments)	Up to 85% of eligible costs	Up to 85% of eligible costs

Key: =Yes =Limited availability =No =N/A

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Overview

The Polish government is committed to improving the competitiveness of the economy and enhancing public support for businesses engaged in R&D by making the terms to benefit from the R&D tax relief more attractive. The government is striving to reach the target level of R&D spending (public and private investment) to 2% of GDP by 2020 to achieve the goals of the Europe 2020 Strategy.

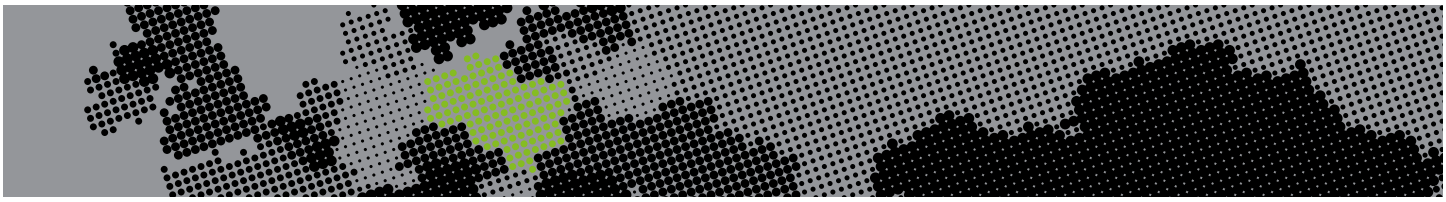
A recently passed law, which will apply as from 1 January 2018, includes a measure that will increase the rate of the super deduction from 150% to 200% of qualifying costs. Before 2018, the super deduction was available for salary costs (including social insurance) of employees, with other R&D-related expenses enjoying a super deduction of 150% for SMEs and 130% for large enterprises. Under the new rules, the size of the enterprise will be irrelevant. Additionally, the super deduction for R&D centers will be increased to 250%.

Poland also offers programs to support R&D activities financed from EU funds for the period 2014–2020.

Initiatives for driving innovation were announced in 2016 in the *Plan for Responsible Development*, which calls for the creation of an innovation-friendly environment that will support companies and the wider economy in their R&D&I activities. A law that helps to achieve innovation goals became effective in 2017 and further improvements are expected. The Plan for Responsible Development also established the *StartInPoland* program, which provides tools to aid innovative start-ups and reform R&D institutions. According to the plan, spending on R&D and innovation is expected to increase to 2% of GDP (the current European average) by 2020.

Over the next few years, Poland is prepared to provide additional support to innovative companies and R&D institutions. The focus of the 2014–2020 operational programs using EU funds is trending toward greater support for new technologies and the implementation of innovative solutions, as compared to the prior emphasis on capital expansion. Nevertheless, a new program that would support investments of major importance to the Polish economy is under development and is expected to be introduced in 2018/2019.

The Polish authorities favor funding projects that have the best research and economic potential and that are related to the National or Regional Smart Specialization because such projects are more likely to qualify for EU funding. The focus of the National Smart Specialization includes the sustainable energy sector, innovative technologies and industrial processes, the agro and food bio-economy, and health-improving initiatives, such as medical technologies and modern diagnostics. These areas of specialization should foster many innovative solutions, provide economic added-value, and drive an increasingly competitive economy.



Poland

There is a substantial increase in Poland's super deductions for R&D conducted in 2017 and thereafter

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R&D tax incentives

Background

The corporate tax rate in Poland is 19% and 15% for small companies (with net sales revenue not exceeding EUR 1.2M).

Since January 2016, Poland has offered both cash grants from national and EU funds (from the European Commission, and at the national and local levels) and income tax incentives to support R&D activities. Other income tax incentives are available to entities with R&D center status.

Tax Incentives

Technology tax relief

A company may deduct from its taxable income up to 150% of expenditure incurred for the acquisition of new technology in the form of intangible assets, such as proprietary rights, licenses, rights under patents or utility models, and know-how that enable the improvement of existing products/services. This incentive is available with respect to intangibles that were entered into the tax register as of the end of 2015 and may be carried back for up to five years.

R&D super tax deduction

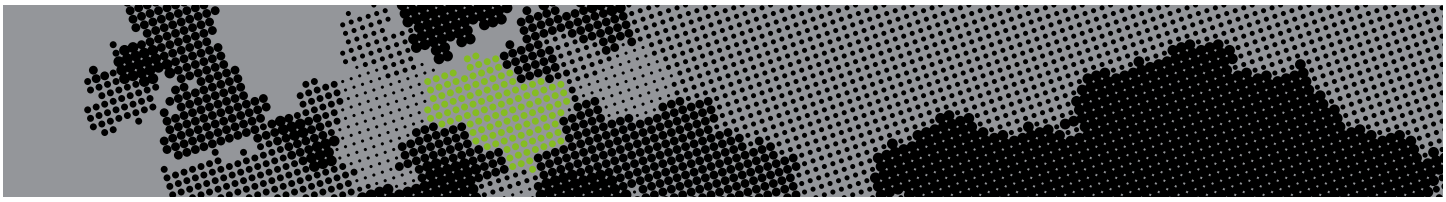
The super deduction incentive replaces the technology tax relief for qualifying expenditure incurred on or after 1 January 2016. The 150% (increased from 130%) super deduction applies to salary costs (including social insurance) for expenditure incurred during 2017 and thereafter. Other R&D-related expenses can be deducted at a 150% (SMEs)/130% (large enterprises) for expenditure incurred in 2017. In addition to salaries incurred for engaging in and supporting qualified research, qualifying expenses include depreciation/amortization of assets (both tangible and intangible), subcontracting, and other operating costs incurred in carrying out R&D activities.

Changes to the tax rules have been introduced to make the R&D super tax deduction more attractive. As from 1 January 2018, the deductions will be increased to 200% of qualifying costs, irrespective of their category and the size of the taxpayer. The costs of laboratory equipment other than fixed assets have been added to the list of eligible costs. Additionally, companies operating in Special Economic Zones (SEZ) will be able to benefit from the super deduction for costs not reported in the SEZ.

Companies with R&D center status granted by the Ministry of Development will benefit from a super deduction of 250% of qualifying costs from 1 January 2018, with the additional 50% considered public aid. The government also has expanded the categories of eligible costs for R&D centers to include the depreciation of buildings used for the purpose of R&D (up to 10% of gross income). R&D Centers will be able to deduct costs of subcontracting acquired from all entities instead of only costs of subcontracting to research institutions.

To acquire R&D center status, a company must submit a formal application and meet the following requirements: (i) generate at least EUR 1.2M in net sales revenue for the prior financial year; (ii) generate revenue from internal R&D services or the sale of industrial property rights accounting for 20% of net revenue; and (iii) not have any outstanding regulatory liabilities.

Entities with R&D center status can establish an innovative fund. Monthly contributions to this fund amounting to 20% of revenue are treated as tax-deductible costs. This benefit expires 31 December 2017.



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R&D tax incentives (continued)

Eligible industries

All industries qualify for R&D incentives.

To apply for R&D grants from EU funds, companies must conduct projects that are in line with the National or Regional Smart Specializations. Smart Specializations define priority sectors for R&D in Poland, including healthcare, energy, recycling, and materials. Regional Smart Specializations are specified for each "voivodship;"[1] the most common regional specializations are medicine and pharmaceuticals, ICT, energy, chemistry, and automotive.

Poland also offers sectorial R&D grant programs dedicated to specific sectors, including chemicals, materials (textiles), metallurgy, automotive, ICT (video games), unmanned systems, electrical power, intelligent devices, systems for energy generation and systems management, recycling, wood and furniture, ship-building, pharmaceuticals, and neuro-medicine.

Qualifying costs

Costs qualifying for the R&D super deduction include:

- Salaries and other remuneration;
- Materials and supplies;
- Subcontracting to research institutions (or to all entities for R&D centers);
- Amounts paid for the use of R&D infrastructure;
- Depreciation write-offs of fixed and intangible assets;
- Laboratory equipment other than fixed assets; and
- As from 1 January 2018, depreciation related to buildings used for the purpose of R&D of up to 10% of the taxpayer's gross income (for R&D centers).

Additional costs may qualify in the case of support schemes for R&D center creation/development:

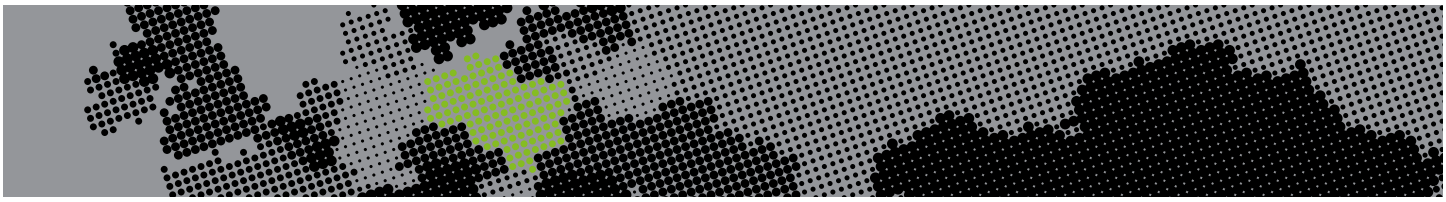
- Purchase of land;
- Purchase of R&D equipment and intangible assets; and
- Construction of facilities.

The costs qualifying for grants are similar to the costs qualifying for the R&D super deduction.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP concerning R&D tax allowances.

1. A voivodship is the area administered by a voivode (Governor) in several countries of central and eastern Europe.



Poland

In addition to federal incentives, there are 14 Special Economic Zones that provide incentives to encourage hiring and investment in certain regions

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Government incentives

Innovation

Poland offers programs to support R&D activities financed from EU funds for the period 2014–2020. Poland remains the largest beneficiary of EU funds, with funding of approximately EUR 82.5B, and more than EUR 10B dedicated to innovation and R&D.

R&D grants (national)

Poland provides numerous grants for R&D, most of which are dedicated to specific sectors falling within the National or Regional Smart Specializations, although a broad range of sectors are eligible for funding. Grants are available mostly from European funds, national funds, and the European Commission (e.g., Horizon 2020, LIFE). Large companies typically can obtain cash grants ranging between 25% to 65% of qualified expenditure, while SMEs can obtain cash grants ranging between 35% to 80% of qualifying expenditure. Additionally, companies can obtain financing for pre-implementation work (up to 90% of the qualified costs, but no more than EUR 200K aid for large companies and up to 50% of costs for SMEs as support for advisory services), which include the development of implementation documentation, patent attorney's services, testing, certification, and market research.

R&D grants (EU)

Enterprises may co-fund the establishment or expansion of their R&D centers with EU funds. Eligible costs include construction work, materials, tangible assets, and intangible assets. Aid may not exceed the regional aid limits. Large companies may be able to receive between 15% (10% starting from 2018 for Warsaw) to 50% of qualifying expenditure, depending on the region defined by the regional aid map. SMEs can receive 25% (20% starting from 2018) to 70% of qualified expenditure, depending on the region.

Investment

Polish government grant for CAPEX

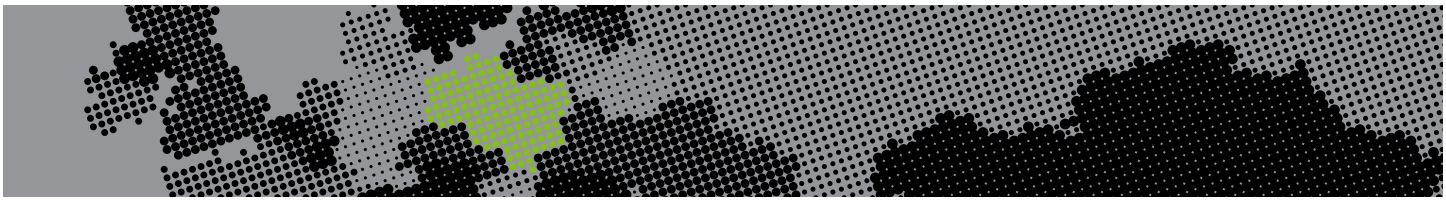
These grants may co-fund large investments that are made to create new jobs. Any sector is eligible for funding, but the minimum requirements are lower for priority sectors (automotive, biotechnology, electronics, aviation, agricultural, and food processing), modern services, and R&D centers. Large companies and SMEs can obtain between 2% and 15% of the investment expenditure, and/or between EUR 750 and EUR 3,700 per new job created. The scheme is available until the end of 2017; however, a replacement program is in the final phase of development, and likely will be published in early 2018.

Grant for SMEs (EU)

SMEs may obtain grants relating to different aspects of their activities, including: investments in tangible assets, purchase of external consulting or services, IP protection, training for employees, etc. The grants range from 25% (20% as from 2018) to 70% of qualifying expenditure, depending on the region.

Special Economic Zones

There are 14 SEZs in Poland that grant incentives to encourage hiring and investment in certain regions. Qualifying investments generally target a specific level of new hiring and investment, and offer up to a 100% corporate tax exemption. The exemption generally is subject to limits on regional aid that range from 15% (10% starting from 2018) to 50% of eligible costs for large companies and 25% (20% starting from 2018) to 70% for SMEs. Eligible costs for purposes of applying the regional aid limits are based on the investment expenditure or two-year labor costs. The government intends to make tax incentives available without territorial restrictions and



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Government incentives (continued)

extend the period in which the investor benefits from a tax credit (from nine to possibly 15 years) starting in 2018. Tax preferences will depend on three basic criteria: the location, the nature of the investment, and the quality of the jobs created. The investor will be required to commit to scientific development, cooperate with research institutions and universities, and provide additional benefits for employees.

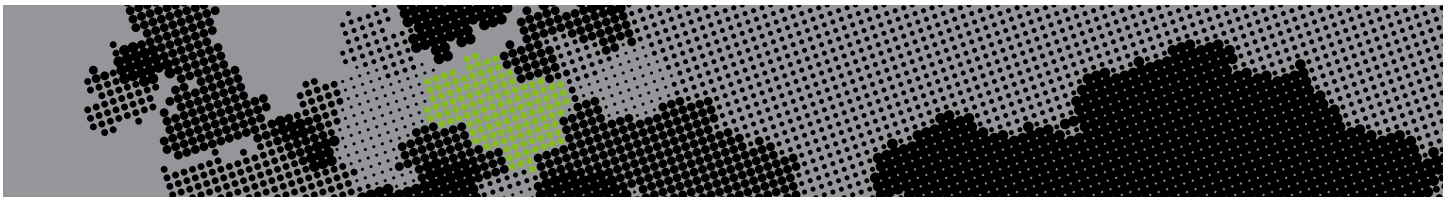
Real Estate Tax (RET) exemption
This incentive is designed to encourage investment in fixed and intangible assets that are likely to result in new jobs. The exemption differs per municipality, but depends on the amount of the investment in assets or the cost of new job creation associated with the investment.

Employment support
Various employment support schemes are available for employers and employees. Most of the support schemes are provided by the Local Labour Office (LLO) and must involve unemployed persons registered with the LLO. Support schemes depend on the LLO budget or the availability of EU funds. Available incentives include: (i) financing apprenticeships for the unemployed; (ii) intervention works (co-financing the salary of the unemployed with the LLO); and (iii) reimbursement of costs related to the purchase of equipment for the workplace.

State Fund for Rehabilitation of Disabled Persons
This fund is used to encourage the hiring and retention of disabled employees by covering up to 75% of salary costs, including social security contributions, depending on the nature of the disability. The grants generally are limited to EUR 100–EUR 425, but the cap is raised by EUR 135 for selected disabilities.

Environmental sustainability

Pro-environment incentives
There are numerous grants, preferential loans, and other financial instruments designed to encourage investment that protects the environment by increasing energy efficiency, and promotes renewable energy sources and cogeneration systems. Incentives are available mostly from EU funds and national funds, and can cover up to 85% of eligible costs.



Portugal

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Tax credit	32.5% of qualified research expense, plus 50% of the increase in expenses over the average qualified research expenses for the previous two years	47.5% of qualified research expenses for new SMEs (i.e., those that have not been in existence for more than two years)
R&D grant (national)	Yes	No	Yes	Advance	Cash grant	25% of eligible expenditure, plus 25% for eligible expenditure related to applied research activities	Small enterprises benefit from an additional grant rate of 20%. Medium-sized enterprises benefit from an additional grant rate of 10%
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	Grants provide funding for research and innovation of up to 100% of eligible expenditure. For innovation activities, grants can fund up to 70% of eligible expenditure	Grants provide funding for research and innovation of up to 100% of eligible expenditure. For innovation activities, grants can fund up to 70% of eligible expenditure
Patent box	Yes	No	Yes	Arrears	Deduction	Up to 50% of revenue generated from IP	Up to 50% of revenue generated from IP

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
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Portugal

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
CAPEX—CFI-RFAI	Yes	No	Yes	Arrears	Tax credit	25% of eligible CAPEX expenditure up to EUR 10M and 10% for all other eligible CAPEX expenditure	25% of eligible CAPEX expenditure up to EUR 10M and 10% for all other eligible CAPEX expenditure
CAPEX—CFI-BFC Contractual tax benefits for investments above EUR 3M	Yes	No	No	Advance	Tax credit	Tax credit is 10% of eligible CAPEX expenditure, with rate increases of up to 15%, depending on project location and number of jobs to be created	Tax credit is 10% of eligible CAPEX expenditure, with rate increases of up to 15%, depending on project location and number of jobs to be created
CAPEX—Portugal 2020—Business innovation	Yes	No	Yes	Advance	Repayable incentive	Repayable incentive can fund 30% of eligible expenditure; up to 60% of repayable incentive can be converted into non-repayable incentive	SMEs benefit from an additional incentive rate of up to 20%
Other							
Portugal 2020—Qualification and internationalization of SMEs	Yes	No	Yes	Advance	Cash grant	N/A	Up to 45% of eligible expenditure
PDR 2020 for Agri-Food projects	Yes	No	Yes	Advance	Cash grant	20% to 50% of eligible expenditures, depending on the project location and type of proponent	20% to 50% of eligible expenditures, depending on the project location and type of proponent
Mar 2020 for Fishery projects	Yes	No	Yes	Advance	Cash grant	30% to 50% of eligible expenditure for projects commonly carried out by private sector entities	For certain types of projects, SMEs benefit from an additional grant rate of 20%

Key: =Yes =Limited availability =No =N/A

Portugal

Portugal offers volume-based and incremental R&D tax credits

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R&D tax incentives

Background

The standard corporate tax rate in Portugal is 21%, with a reduced rate of 17% applying to the first EUR 15K of taxable profits of SMEs (a municipal surcharge and a state surcharge also apply in certain cases).

Nature of incentives

The Tax Incentives Scheme for Corporate R&D (SIFIDE II) will be in place until 2020 and provides a current year tax deduction for R&D costs, as well as the tax incentives described below.

A credit is granted against the corporate tax liability for expenditure incurred on R&D activities (net of any cash grants awarded by the government in relation to the R&D project). The tax credit is both volume-based and incremental:

- **Base rate:** 32.5% of the R&D expenditure incurred during the tax year; and
- **Incremental rate:** All taxpayers can take an additional incremental credit of 50% of qualified spend exceeding the average amount spent in the prior two tax periods. This incremental credit applies only to taxpayers that had active businesses in the two years prior to the credit year. However, SMEs that have not been actively engaged in business for at least two tax years can benefit from a special increase of 15% to the base rate, i.e., a 47.5% credit computed on qualified spend.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Eligible activities can take place anywhere as long as the cost is incurred by the Portuguese company claiming the benefit.

Qualifying expenditure includes:

- The acquisition cost of new fixed assets connected with R&D activities, except buildings and land;
- The wages of personnel directly involved in R&D activities provided the employee has completed a secondary level of education and a traineeship, i.e., the employee must have a minimum rating level of four as defined in the National Qualifications Framework. In addition, 120% of the wages paid to personnel with a qualification level of eight (PhDs) are eligible for the research credits.
- Allocated costs of directors and professionals participating in the management of R&D institutions.
- Costs of contracting R&D activities from public entities and/or from entities recognized as possessing R&D capabilities.
- Certain general operating costs in an amount of up to 55% of personnel costs directly involved in R&D activities. These costs include:
  - Overhead, such as electricity, gas, water, rent, repairs, and maintenance;
  - Contracted R&D services (from entities not officially recognized as possessing R&D capabilities); and
  - Wages of personnel involved in R&D activities with a qualification level below four.
- Expenditure incurred to raise capital for institutions that perform R&D and contributions to funds aimed to finance R&D.
- Costs of registering and maintaining patents.
- Patent acquisition costs related to R&D activities (applicable only to SMEs).
- Costs of R&D audits (applicable only to SMEs).
- Expenses related to demonstration activities of approved R&D projects.

Expenses incurred in projects undertaken exclusively for third parties are not eligible for research tax incentives.

Portugal

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R&D tax incentives (continued)

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP concerning R&D tax benefits.

Other concerns

The regime requires the submission of an application by end of the seventh month after the year-end (usually in July of the following year since most taxpayers use the calendar year). If the tax liability for the year is insufficient to fully utilize the credit, any unutilized tax credit may be carried forward up to eight subsequent taxable periods.

SIFIDE II requires applications to be certified by the committee for corporate R&D tax incentives. The application must contain a description of the technical details of the R&D activities carried out, the corresponding qualifying expenditure and related incremental amounts compared with previous accounting periods. An entity may be subject to a technological audit at the end of the project.

Patent box

The patent box regime provides a deduction of a portion (up to 50%) of the revenue generated by IP developed through R&D undertaken in Portugal. Fifty percent of the income from the sale or grant of the temporary use of industrial property rights (i.e., patents, industrial drawings, and models) is exempt from corporate income tax. Income from the development of trademarks, software, copyrights, and know-how, however, is not eligible for benefits under the patent box.

The patent box regime was amended on 30 June 2016 to bring it in line with the recommendations of the OECD under action 5 of the BEPS project. The new patent box regime adopts the modified nexus approach by providing that only the share of income attributable to R&D undertaken in Portugal will qualify for the patent box.[1] The revised patent box allows Portuguese taxpayers to benefit from the regime to the extent they can show that they incurred R&D expenditure on or after 1 July 2016 that gave rise to the patent income.[2]

1. The current regime limits the patent box deduction in proportion to incurred eligible expenses based on the following formula: (Qualifying expenditure incurred to develop the IP asset(s)/Total expenditure incurred to develop the IP derived from the active IP tax benefits) x Overall income from IP asset(s) x 50% = Eligible IP income.
2. Grandfathering provisions apply for patents and industrial designs acquired by 1 July 2016 that allow taxpayers to maintain the benefits of the previous regime until 30 June 2021.

Portugal

Portugal offers tax incentives and grants to encourage innovation, capital expansion, and investments in certain targeted industries

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Government incentives

Innovation

R&D grant (national)

Program "Portugal 2020—R&D" provides cash grants for projects involving applied research and/or experimental development activities, leading to the invention of new products, processes, or systems or significant improvements to existing products, processes, or systems (individual or joint projects). The program requires the submission of an application within specific calls for proposals issued by the competent authorities. Eligibility is broad and includes all economic activities, in particular, those that aim at the production of tradable goods and services. The following industries are excluded: (i) finance and insurance; (ii) defense; and (iii) lottery and gambling. Funding for large enterprises under this program can be up to 25% of eligible expenditure, plus 25% for eligible expenditure related to applied research activities. The funding opportunity is increased for medium-size companies by 10% and for small companies by 20%.

R&D grant (EU)

The European program "Horizon 2020" provides cash grants for research and innovation activities addressing societal challenges linked to the policy priorities of the Europe 2020 strategy. The program requires the submission of an application within specific calls for proposals. Proposals must be submitted by consortia formed by entities established in at least three different EU member states or associated countries. Grants provide funding for research and innovation of up to 100% of eligible expenditure. For innovation activities, the grant can fund up to 70% of eligible expenditure.

Investment

CFI–RFAI

Program CFI–RFAI provides tax credits for initial investments related to (i) the creation of a new establishment; (ii) an increase in the capacity of an existing establishment; (ii) diversification of the production of an existing establishment; or (iv) a fundamental change of the production process of an existing establishment. Eligibility is broad, but some sectors are excluded due to national and European restrictions. Investments must lead to net job creation. The tax credit is 25% of eligible CAPEX expenditure up to EUR 10M and 10% of eligible CAPEX expenditure above EUR 10M.

CFI–BFC—Contractual tax benefits for investments above EUR 3M

Program CFI–BFC is similar to the CFI–RFAI, but is available only for initial investments that exceed EUR 3M and taxpayers must prepare and submit an application in advance, i.e., before the beginning of the investment period. Successful applicants will be offered the opportunity to sign a tax grant agreement. The tax credit is 10% of eligible CAPEX expenditure, with rate increases of up to 15%, depending on the project location and number of jobs to be created.

Portugal 2020—Business innovation

Portugal 2020—Business innovation provides repayable incentives for initial investments that lead to the production of new or significantly improved tradable goods and services, thus contributing to the international orientation of the Portuguese economy. Repayable incentives can fund 30% of eligible expenditure. SMEs benefit from a rate increase of up to 20%. Up to 60% of the repayable incentive can be converted into a non-repayable incentive if the applicant exceeds certain goals.

Other

Portugal 2020—Qualification and Internationalization of SMEs

Portugal 2020—QI SMEs provides cash grants to strengthen the business capacity of SMEs through investments in a variety of areas, including: (i) participation in international exhibitions; (ii) prospection of international markets;[3] (iii) implementation of quality certifications; (iv) adoption of digital tools; (v) adoption of information and communication technologies; and (vi) creation of brands and design. Cash grants can provide SMEs with funding of up to 45% of qualifying expenditure.

PDR 2020 for Agri-Food projects

Program "PDR 2020" provides cash grants for investments in the production of agricultural products and investments in the agri-industry for processing such products. Projects must be compatible with environmental regulations, foster innovation and the creation of value, and ensure the quality and safety of food. Cash grants can fund 20% to 50% of eligible expenditure, depending on the project location and type of proponent.

Mar 2020 for Fishery projects

Program "Mar 2020" provides cash grants for investments in the fishing sector, including investments in (i) fishing vessels, ports and auction markets; (ii) aquaculture sites; (iii) processing and storage of fish and aquaculture products. Cash grants can fund 30% to 50% of eligible expenditure for the types of projects commonly carried out by private sector entities. For certain types of projects, SMEs benefit from a rate increase of 20%.

3. The final objective is penetration of international markets. Subsidized activities include consultation and preliminary contacts with potential clients and other stakeholders located in the targeted markets.

Romania

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax (super deduction)	Yes	No	Yes	Arrears	Super deduction for eligible R&D expenditure	8% net benefit[4]	8% net benefit[4]
R&D tax (exemption)	Yes	No	Yes	Arrears	Corporate income tax exemption for the first 10 years of exclusive R&D activities	16% corporate income tax exemption	16% corporate income tax exemption
R&D tax—Salary income tax exemption for employees performing software development activities	Yes	Yes	No	Advance	Income tax exemption for employees who perform research and develop software	16% of employment income	16% of employment income
R&D grant (national)	Yes	No	Yes	Advance	Grants and other financing instruments	50% of eligible costs	70% of eligible costs
R&D grant (EU)	Yes	No	Yes	Advance	Several financing instruments, varies	50% of eligible costs	70% of eligible costs
Patent box	No	N/A	N/A	N/A	N/A	N/A	N/A

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. Net benefit of a 150% deduction for a corporate income tax rate of 16%.

Romania

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment							
Reinvested profit	Yes	Yes	No	Arrears	Profit invested in certain equipment is exempt from corporate income tax	16% corporate income tax exemption	16% corporate income tax exemption
State aid scheme for initial investments (CAPEX and innovation)	Yes	No	Yes	Advance	Cost reimbursement for initial investment	50% of eligible costs	70% of eligible costs
Employment (State aid scheme for employment)	Yes	No	Yes	Advance	Employer salary contributions are reimbursed according to specific state aid intensity/region	50% of eligible costs	50% of eligible costs
Training (Human Capital Program)	Yes	No	Yes	Advance	Reimbursed training costs	50% of training costs	70% of training costs

Key: =Yes =Limited availability =No =N/A

Romania

Romania offers a super deduction of 150% of qualified research expenses and a 10-year tax exemption for R&D companies

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R&D tax incentives

Background

The general corporate income tax rate in Romania is 16%.

Nature of Incentives

Romania offers a 150% super deduction for eligible R&D expenditure. In light of the 16% corporate income tax rate, the incentive provides a tax savings of 8% of qualifying costs.

Additionally, accelerated depreciation for equipment and machinery used in R&D activities of up to 50% of the fiscal value of the asset may be deducted during the first year of use. The remaining fiscal value may be depreciated over the remaining useful life of the asset.

As from 6 January 2017, taxpayers that only carry out R&D activities may benefit from a corporate income tax exemption for the first 10 years of activity. The 10-year period begins on 1 January 2017 for qualifying companies that existed before that date.

Eligible industries and qualifying activities

The super deduction is granted to a Romanian taxpayer that conducts qualifying R&D activities. Taxpayers in every industry can qualify, including taxpayers that participate in collaborative R&D through partnerships or associations, provided they have the right to use the research results in their business, e.g., selling products developed through R&D, selling the results of the R&D, or exploiting the IP in another way.

The R&D activities must be creative activities that bring a significant element of novelty in resolving scientific or technological uncertainty, i.e., the solution should not be obvious for a competent professional in the field. The following activities are considered qualifying research:

- Applied research undertaken to acquire new knowledge for the development of new products, processes, or services or for the significant improvement of existing products, processes, or services. This includes the creation of components for existing complex systems and may include the construction of prototypes or pilot lines if necessary for the industrial research, and especially for the validation of new processes, products, and services.
- Technological development work, drawing on existing knowledge gained from research and/or practical experience that is directed at obtaining new materials, products, processes, systems, and services, or to improving substantially those already in existence.

Eligible expenses incurred in qualifying activities

The following expenses are eligible for the R&D incentives (and these expenses must be incurred in connection with qualified research activities):

- Depreciation and rental expenses of new tangible and intangible fixed assets for the period these assets are used in qualifying research (accelerated depreciation also may be taken on equipment used for R&D activities);
- Maintenance and repair costs for tangible and intangible assets used for the R&D activities;
- Personnel expenses for employees directly involved in R&D activities and related activities (e.g., experiments, documentation, etc.);
- Operating expenses, including fees paid to vendors, contractors, and other third parties, as well as the costs of consumables, expenses for materials that are included in inventory, raw materials expenses, expenses for animals used in experiments, and similar products used in R&D activities; and
- Utilities that can be allocated directly or proportionally to the results of R&D activities.

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R&D tax incentives (continued)

The R&D deduction is applicable even if R&D expenses are capitalized according to the accounting rules.

Where a third-party contractor carries out part of the R&D activities, the party paying for the research can treat the amount paid as a qualifying research expense. The contractor also may benefit from the incentive for the related expenses provided the party paying for the research does not use the incentive.

IP and jurisdictional restrictions

The R&D activities may be carried on in Romania or in other EU/EEA countries. There is no specific restriction on the IP.

Other concerns

Tax incentives for R&D activities are granted separately for each project.

Taxpayers must prepare documentation describing the research project, the intended objectives, the novel aspects of the research project, the period during which the research will be undertaken, the field of research, and financing. The documentation need not be submitted to the tax authorities for pre-approval, but the tax authorities will examine the documentation during a tax audit.

Additional deductions related to R&D expenses must be presented on a separate row in the annual profits tax return and separately in the corporate income tax register. There is no specific administrative requirement for the accelerated depreciation method.

The taxpayer may obtain certification or an expert opinion from tax authorities regarding its eligibility for the tax incentives, but this is not mandatory.

Romania

Romania provides state aid for companies who invest in innovation, employment, regional development, and capital expansion

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Government incentives

Innovation

Salary income tax exemption for employees performing software development activities

An income tax exemption is available for the salary income of employees from carrying out qualifying activities, provided they are employed by eligible companies carrying out software development activities. The salary income must be derived from software development activities, and other requirements also apply (e.g., creation of computer software must be one of the business activities of the Romanian employer).

The incentive starts the second year of the company's activity in Romania, provided all other requirements are met. The employer applies the exemption—no approval or confirmation is required from the tax authorities.

Salary income tax exemption for employees carrying out eligible R&D activities

Scope: An income tax exemption for the salary income of employees of Romanian companies performing eligible R&D activities or individuals on international assignment to Romania attributable to eligible R&D activities. The salary income must be derived from eligible R&D activities included in an applied R&D or technological development project. Other requirements also apply (e.g., R&D must be one of the business activities of the Romanian employer, the activities must be included in an R&D project, etc.).

The incentive became effective for income earned for the month of August 2016. The employer applies the exemption—no approval is required from the tax authorities.

Competitiveness Program (EU grants for R&D)

Romania is implementing Priority Axis 1 of the Competitiveness Program during the program period 2014–2020, which finances R&D projects targeted at specific areas that have growth potential.[1]

Eligible beneficiaries include both public and private sector entities, with specific eligibility criteria applying to each type of beneficiary.

Selected projects will receive aid to finance the construction of new R&D departments and the modernization, expansion, consolidation, and change of destination of existing R&D departments.

Regional Operational Program (EU grants for R&D)

For the period 2014 to 2020, the Priority Axis 1 of the Regional Operational Program is available to promote several sectors, including:

- Business investment in research and innovation;
- Developing links and synergies between enterprises;
- R&D centers and the higher education sector, in particular, promoting investment in product and service development;
- Technology transfers;
- Social innovation;
- Eco-innovation;
- Public service applications;
- Demand stimulation;
- Networking;
- Clusters and open innovation through smart specialization, and supporting technological and applied research;
- Pilot lines;
- Early product validation actions; and
- Advanced manufacturing capabilities and first production, in particular, in key enabling technologies and diffusion of general purpose technologies.

Under both the Competitiveness Program and the Regional Program, applications must be submitted in advance, and the evaluation process lasts about six months. Approved projects can last for three years, and costs are reimbursed every three months after the submission of the interim payment request.

The financing differs depending on the region, type of project, and type of applicant. The maximum that can be received is 50% of the eligible costs, and budgets for large companies range from EUR 200K to EUR 20M (Competitiveness Program). For SMEs, the assistance can be up to 70% of eligible costs, and ranges between EUR 40K and EUR 1M (Competitiveness Program & Regional Program).

1. The domains include healthcare and intelligent specialization, which includes bio-economy, ICT, space and security, energy, environment, eco and nano technologies, and advanced materials.

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Government incentives (continued)

Horizon 2020

National EU financing programs, such as the Competitiveness Program and the Regional Development Program, support the creation of synergies between the actions of the program and the Horizon 2020 initiatives with specific R&D grants.

Investment

CAPEX-reinvested profit

Starting from 1 January 2017, profits reinvested in certain assets (technological equipment, software, desktops, laptops, etc.) is tax exempt, thus providing a 16% corporate income tax exemption. The exemption is computed based on the gross accounting profit accumulated from the beginning of the fiscal year the assets were commissioned. The tax incentive is applicable for assets commissioned and used for business purposes.

The taxpayer must hold the assets for at least half of their useful life, but not exceeding five years, and the assets cannot be depreciated using the accelerated depreciation method.

A reserve may have to be created at the end of the year, calculated as the portion of the accounting profit related to the incentive, less the legal reserve (however, if the taxpayer is in a loss position at year-end, the reserve is not necessary). The reserve will be taxable when utilized in any way, including in the case of a reorganization, if the beneficiary company does not maintain this reserve. If the reserve is kept until the taxpayer is liquidated, it will not be included in taxable income.

The incentive is granted in the year in which the reinvestment is made.

State aid scheme for employment

The government supports the creation of new jobs in targeted economic sectors (including R&D activities) by subsidizing part of the salary costs for new employees. Under this scheme, the cost of employer salary contributions (capped at certain gross salary amounts) are reimbursed at varying rates, depending on the region. The reimbursement can range from 10% to 50% of eligible costs, and the total value cannot exceed EUR 37.5M, depending on the region.

State aid scheme for initial investments

The government supports initial business investments by subsidizing CAPEX costs. Most economic sectors are eligible (including R&D activities), but a few sectors are not eligible for financing under this scheme. Companies that have discontinued the same or similar activity in the EEA within the past two years, and companies that intend to discontinue the same or similar activities in another EU member state within two years of completing the project, are not eligible for financing under this scheme.

Eligible cost (tangible assets, including construction costs and equipment) are reimbursed at varying rates, depending on the region. The reimbursement can range from 10% to 50% of eligible costs, and the total value can range between EUR 7.5M to EUR 37.5M, depending on the region.

A new proposed scheme for SMEs could provide support up to 70% of eligible costs, with budgets ranging from EUR 40K to EUR 10M. This scheme is approved but is dependent upon funding from a national budget that is approved annually.

National plan for RDI (program period 2015–2020)

This includes five financing programs and sub-programs supporting investment in the following economic sectors:

- Intelligent specialization: Bio economy, ICT, space and security, energy, environment and advanced materials, eco and nano-technologies, and advanced materials;
- Priority sectors: Healthcare, cultural identity, and new and emerging technologies.

Eligible applicants include private researchers, R&D public entities, and partnerships between public R&D entities and the private sector.

Human Capital Program—Training initiative

This is an EU-funded program aiming at reducing social and economic disparities in Romania. It supports interventions in the education, health, and labor markets, especially in the less developed regions and with a focus on vulnerable populations (youth under 26 years old, employees over 55, and the unemployed). Only one measure in this program is targeted at training staff in private companies. The program is directed at R&D and other areas with growth potential. The allocation to the training measure in the program is EUR 108M, and targets 37,900 employees from 245 companies (74 large companies and 171 SMEs). The amount of aid varies, but is limited to 50% of training costs for large companies and 70% of training costs for SMEs.

Russia

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	No	Arrears	Tax deduction, accelerated depreciation	150% of R&D expenditure deduction from the profits tax base (generating a 10% tax savings) and accelerated depreciation of fixed assets used in R&D	150% of R&D expenditure deduction from the profits tax base (generating a 10% tax savings) and accelerated depreciation of fixed assets used in R&D
R&D grant (national)	Yes	Yes	Yes	Advance	State grants or subsidies	Varies	Varies
R&D grant (EU)	Limited availability	No	Yes	Advance	Only applicable if grants correspond to key targets of national programs; otherwise, partly suspended	Varies	Varies
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
Capital investment support	Yes	Yes	No	Advance and arrears (varies)	Tax reduction or exemption, state subsidies	Possible reduction to 15.5% profits tax and 0% property tax rates for a certain period; possible partial compensation of expenditure	Possible reduction to 15.5% profits and 0% property tax rates for a certain period; possible partial compensation of expenditures
Employment—reduced social security contributions	Limited availability	No	No	Arrears	Reduced social security rates	Reduced social security contributions for special industries	Reduced social security contributions for special industries

Key: Yes, Limited availability, No, N/A

Notes:

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3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Russia

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
Special investment contracts (SPIC)	Yes	Limited availability	No	Advance	Tax reduction or exemption, subsidies, state loans	Varies, but can include a 100% profits tax exemption	Varies, but can include a 100% profits tax exemption
Regional investment projects (RIP)	Yes	Yes	No	Advance	Tax reduction or exemption	Varies, but can include a 100% profits tax exemption	Varies, but can include a 100% profits tax exemption
Environmental sustainability							
Energy efficient fixed assets	Yes	No	No	Arrears	Property tax exemption and accelerated depreciation	0% property tax rate for certain fixed assets for three years, accelerated depreciation	0% property tax rate for certain fixed assets for three years, accelerated depreciation
Other							
Special Economic Zones (SEZs)	Yes	Yes	No	Advance	Tax reduction or exemption, reduced social security contributions rates, free customs zone	Possible reduction to 0% profits and property tax rates for 10 years, accelerated depreciation, a VAT exemption in certain cases, and reduced social security contributions	Possible reduction to 0% profits and property tax rates for 10 years, accelerated depreciation, a VAT exemption in certain cases, and reduced social security contributions
Skolkovo Innovation Centre	Yes	No	No	Advance	Tax deduction, reduced social contributions rates, free customs zone, state subsidies, grants	0% profits and property tax rates for 10 years, a VAT exemption, reduced social insurance contributions, and access to grants and subsidies	0% profits and property tax rates for 10 years, reduced social insurance contributions, and access to grants and subsidies

Key: =Yes =Limited availability =No =N/A

Russia

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Other (continued)							
Subsidies for investors	Yes	Yes	Yes	Arrears	Cash subsidies for investors	Varies	Varies
Certain medical activities, education, and agriculture	Yes	No	No	Arrears	Tax deduction, tax rate reduction	0% profits tax rate and VAT and customs duty exemptions for importing high-grade components and equipment not produced in Russia	0% profits tax rate and VAT and customs duty exemptions for importing high-grade components and equipment not produced in Russia
Special tax regime territories—Territories of Advanced Social and Economic Growth (TASEGs)	Yes	Yes	No	Advance	Tax reduction or exemption, reduced social contributions rates, and VAT declarative refunds	Varies by region. Potential reduction to 0% profits and property tax rates for five years after the resident makes profit, and to 13%-20% for the following five years; reduced social insurance contributions; and VAT declarative refunds	Varies by region. Potential reduction to 0% profits and property tax rates for five years after the resident makes profit, and to 13%-20% for the following five years; reduced social insurance contributions; and VAT declarative refunds
Special tax regime territories—Free port of Vladivostok (FPV)	Yes	Yes	No	Advance	Tax deduction, reduced social security contributions rates, free customs zone, and VAT declarative refunds	Up to 0% profits and property tax rates for five years, 12% profits tax rate and 0.5% property tax rate for the next five years, reduced social security contributions, and VAT declarative refunds	Up to 0% profits and property tax rates for five years, 12% profits tax rate and 0.5% property tax rate for the next five years, reduced social security contributions, and VAT declarative refunds

Key: =Yes =Limited availability =No =N/A

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Russia offers a 150% super deduction for profits tax, reduced social security contributions, and various tax benefits for businesses operating in designated zones, and investment incentives

R&D tax incentives

Background
The corporate tax rate in Russia is 20%.

Nature of incentives
Russia offers a 150% super deduction, reduced social security contributions, and an exemption from value added tax (VAT).

150% super deduction
Companies conducting qualifying R&D activities can apply for a 150% super deduction in computing profits tax liability. The super deduction can be granted even if the R&D activities fail to produce a new product or service. As from 1 January 2017, 50% of operating losses attributable to a super deduction may be carried forward to the next period, but are not refundable if the losses cannot be utilized.

Accelerated depreciation
Accelerated depreciation may be applied to fixed assets used in R&D activities.

Eligible industries and qualifying costs
R&D expenditure must relate to the development of new products, the improvement of production processes, or the development of new services. The list of qualifying R&D activities includes activities that often are performed by companies in many industries, such as oil and gas, telecommunications, transportation, and IT. Qualifying costs include labor costs, R&D contractor expenses, depreciation of equipment used for R&D, and other relevant and properly allocated expenses, limited by a 75% cap on eligible salary costs.

IP and jurisdictional restrictions
There is no specific rule on whether R&D activities must be carried out in Russia or whether foreign R&D contractors can be engaged. However, a contractor performing R&D for a third party cannot claim the incentive, but the third party can make the claim if it meets all other relevant criteria.

The super deduction can be applied regardless of whether the activities are successful, i.e., whether or not the activity results in the creation of IP. If the R&D activities lead to the creation of IP, the relevant expenses are multiplied by 1.5 and amortized over a two-year period. The cost of acquiring IP is eligible for the super deduction with certain limitations.

Other concerns
The Russian tax authorities require that R&D reports for every eligible project be submitted with the annual profits tax return. There is no preapproval procedure, and the reports are examined as part of the profits tax calculation within the tax audit procedure.

Russia

Russia offers a wide variety of incentives for regional development

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Government incentives

Investment

Capital investment support

Federal incentives—Russia provides federal subsidies, low-interest loans, and public-private partnership agreements to investors, which partly shifts the cost burden onto the Russian federal budget.

Regional incentives—Russian regions offer a range of tax advantages to investors. Among the most significant regional tax concessions are a reduced profits tax rate of 15.5% by a reduction in the regional component and property tax reduction or an exemption from property tax for certain types of property.

Employment-reduced social security contributions

Companies that specialize in software development may qualify for reduced social security contribution rates as follows:

- 14% on annual remuneration of up to RUB 755K in 2017 and up to RUB 815k in 2018 (the standard rate is 30%);
- 12% on annual remuneration between RUB 755–876K in 2017 and between RUB 815k–1021k in 2018 (the standard rate is 27.1%); and
- 4% on annual remuneration exceeding RUB 876K in 2017 and exceeding RUB 1021k in 2018 (the standard rate is 15.1%).

Special Investment Contract (SPIC)

Under an SPIC, an investor agrees to invest in establishing a new production facility or upgrading existing facilities to achieve certain production volume with a certain level of localization. In return, the government guarantees the investor a grandfather clause and various types of incentives, including tax concessions and subsidies, including a reduction of profits tax may to 0% for 10 years. However, the conditions to qualify for the SPIC and incentives have not yet been adopted in many regions.

Regional Investment Project (RIP)

The investor may take advantage of tax concessions, such as a reduced profits tax rate, as follows:

- 0% for the first five years after the resident makes a profit and 10% for the following five years for RIPs in one of the regions of Siberia or the Far East; and
- 10% starting from the year in which the total amount of tax incentives received equals the amount of capital investments for RIPs in any region other than those in Siberia and the Far East.

In addition, companies that carry out an RIP may apply for a reduction in the mineral extraction tax rate. Terms for the RIP regime vary significantly from region to region.

To be eligible for the most of the incentives, the investor must provide a stable amount of capital investment, with an average minimum threshold of RUB 50M (the actual amount depends on the region, the chosen incentive, and other conditions). Territory-specific incentives require setting up a production facility in a specified territory or fulfilling certain other special conditions (e.g., carrying out a certain eligible activity in a particular industry).

Energy sustainability

Energy efficient fixed assets

A property tax exemption and accelerated depreciation are available for energy-efficient assets for three years starting from the date the property is put into operation. This incentive does not require preapproval from the tax authorities or other public authority, but in practice, the application of the incentive has been limited.

Russia

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Government incentives (continued)

Other

Special Economic Zones (SEZs)

Russian legal entities incorporated within an SEZ with no external branches or representative offices may apply for a reduced profits tax rate of 2% or 0% (depending on the category of the SEZ) and a property tax exemption. Such companies also benefit from a reduced regressive social contribution rate of 14% on annual compensation up to a cap of RUB 755K, 12% on annual remuneration of RUB 755K to RUB 876K, and 4% on annual remuneration exceeding RUB 876K. Other potential incentives include accelerated depreciation, a VAT exemption, and access to a free customs zone. The approval process may be complex.

Skolkovo Innovation Centre

Companies operating in the Skolkovo Innovation Centre are entitled to an exemption from profits tax, VAT, and property tax, as well as a reduced rate of 14% for social security contributions. To qualify for the benefits, the company must be a Russian legal entity engaged in one of the following types of innovative activity: energy efficiency, nuclear engineering, space technology, medicine, biotechnology, or IT.

Russia provides many other region-specific incentives, with the requirements depending on local rules and investment scenarios. The most notable incentives are as follows:

- 0% profits tax for companies engaged in educational and medical activities, and companies producing agricultural goods;
- Reduced profits tax rate (a maximum possible reduction to 15.5%) for companies in the IT industry and companies that offer high wages (without industry specification);
- Grants and subsidies in strategic sectors, such as energy and resources, advanced technologies, life sciences, high-tech manufacturing, etc.;
- Subsidies and grants or compensation for interest expenses on Russian bank loans for small and medium-sized enterprises or for the users of certain selected energy-saving technologies.
- Subsidies for capital investors in different regions. However, this process is subject to an individualized approach and highly dependent on the regional budget capabilities, type of investing activity, and specifics of the agreement between an investor and a state body. Such subsidies rarely exceed 20%–30% of capital expenditure.
- Import VAT exemption for technological equipment that does not have a Russia-produced substitute, as determined by a government-approved list (an 18% import VAT normally applies). Qualifying for this regime may improve working capital positions for a VAT-payer, or reduce equipment costs for VAT-non payers.

Special tax regime territories

Several special tax regimes are available for companies in the Territories of Advanced Social and Economic Growth (TASEGs) and the Free Port of Vladivostok (FPV). Companies resident in the TASEG or FPV may apply for a reduced profits tax rate (between 0% to 5% for the first five years after the company makes a profit, and between 13% to 20% for the following five years), a property tax exemption (depending on the territory), reduced regressive social security contribution rates for 10 years (7.6% to 0.1%, depending on the remuneration cap), and a declarative procedure for VAT refunds without a bank guarantee.

Singapore

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	Yes	Arrears	Super deduction	Generally deduction of up to 200% of qualifying R&D expenditure, which translate into tax benefits of 34%	Generally deduction of up to 200% of qualifying R&D expenditure, which translate into tax benefits of 34%
R&D grant—Research Incentive Scheme for Companies (RISC)/Innovation Development Scheme (IDS)	Yes	Yes	Yes	Advance	Cash grant	Generally a cash grant of up to 30% of total project costs for a period of three years	Generally a cash grant of up to 30% of total project costs for a period of three years
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box[4]	Yes	No	Yes	Advance	Preferential tax rates	Negotiated investment incentive	Negotiated investment incentive
Investment							
Pioneer incentive	Yes	Yes	Yes	Advance	Income tax exemption	Negotiated investment incentive	Negotiated Investment Incentive
Development and Expansion Incentive (DEI) and HQ awards	Yes	Yes	Yes	Advance	Preferential tax rates	Negotiated investment incentive	Negotiated investment incentive
Investment allowance	Yes	Yes	Yes	Advance	Additional tax allowance	Between 30%–100% of approved fixed capital expenditure	Between 30%–100% of approved fixed capital expenditure
Land intensification allowance	Yes	Yes	Yes	Advance	Tax allowance	Initial allowance of 25% and annual allowance of 5% of qualifying capital expenditure	Initial allowance of 25% and annual allowance of 5% of qualifying capital expenditure
Global trader program	Yes	Yes	Yes	Advance	Preferential tax rates	Negotiated investment incentive	Negotiated investment incentive

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. The 2017 budget, presented by the finance minister on 20 February 2017, includes a proposal to introduce a BEPS-compliant patent box regime. The patent box is expected to apply from 1 July 2018.

Singapore

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Overview

Despite having one of the lowest corporate tax rates in the world, Singapore offers a wide range of investment incentives for investors, including tax holidays, preferential tax rates, and grants to attract substantive Singapore inbound investment and support business expansions in Singapore. Such fiscal tools have been used by Singapore since its independence to promote economic development in the country.

The productivity and innovation credit (PIC) scheme, introduced in 2010, offers a super deduction of up to 400% of qualifying expenditure on qualifying R&D activities conducted both in and outside Singapore provided it can be demonstrated that the benefits of the R&D activities effectively accrued to the Singapore entity. This scheme is set to expire on 31 December 2017, but R&D activities in Singapore should continue to enjoy up to a 150% or 200% tax deduction if certain conditions are satisfied or approval is granted. Given the importance of R&D to the economy, the government may seek to introduce further schemes to support R&D.

In addition, there are grant schemes (such as the RISC and IDS schemes) to support R&D activities on an approval basis. The support level generally can be up to 30% of total project costs, with higher support for certain costs. An R&D project can enjoy both the grant support and the super deduction under the PIC scheme.

Where significant substantive investments are made in the country whether via a new investment or the expansion of an existing investment—tax incentives in the form of a tax holiday or preferential tax rates may be applied in respect of the incremental activities. The incentives generally are discretionary and are administered by various government statutory boards, such as the Economic Development Board, the Monetary Authority of Singapore, or the International Enterprise Singapore, depending on the nature of the investment and the industry. Some of the common incentives are the pioneer tax incentive, which offers a tax holiday, development and expansion incentives that can offer a 5% or 10% preferential tax rate, together with a HQ status award, investment allowance that can be used to support projects with high CAPEX, and a global trader program that seeks to promote international trading in Singapore.

Singapore

Singapore offers multi-tiered super deductions for R&D carried out both within and outside Singapore that generally are capped at 200% of qualifying expenditure

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R&D tax incentives

Background

Singapore's headline corporate tax rate is 17%, with a partial tax exemption granted for the first SGD 300K of taxable income.

Nature of incentives

R&D tax deduction

Section 14D—100% base deduction

Section 14D of the Income Tax Act (ITA) provides an exception to the general rule that R&D costs are capital in nature and, hence, not currently tax deductible. This section allows current deductions for R&D expenditure incurred by a taxpayer in the conduct of its trade or business (including payments made to R&D institutions, and payments made under an R&D cost sharing agreement).

Eligible expenses include: wages and salaries, materials, and utilities incurred directly for R&D activities. Capital expenditure on plant, machinery, land, or buildings, or on alterations, additions, or extensions to buildings, or on the acquisition of rights arising in or arising out of R&D are specifically excluded. For the tax years from 2009 to 2025, the R&D expenditure need not be related to the entity's existing trade or business to qualify for the tax deduction, unless the R&D is performed outside Singapore.

Section 14DA(1)—50% additional deduction

In addition to qualifying for the ITA Section 14D base deduction, expenditure incurred with respect to R&D conducted in Singapore during tax years from 2009 to 2025 may qualify for an additional deduction of 50% of qualifying expenditure.

Qualifying expenditure includes staff costs, consumables, and other expenses prescribed by the Minister. This is a narrower scope of qualifying expenses than under ITA Section 14D. Expenditure incurred on R&D performed outside Singapore does not qualify for the additional 50% deduction.

Section 14DA(2)—250%–300% enhanced deduction under the Productivity and Innovation Credit scheme (PIC)

In addition to the 100% base deduction under ITA Section 14D and the 50% additional deduction under Section 14DA(1), an enhanced deduction under the PIC scheme is granted for tax years 2011 to 2018. Total deductions for qualifying expenditure: (i) cannot exceed 400% of total qualifying expenditure, and (ii) the additional deductions are granted on the first SGD 400K of qualifying R&D expenditure incurred per year or SGD 600K for qualifying SMEs (effective from tax year 2015). A qualifying SME is defined as a business (sole proprietor, partnership, or company) carrying on a trade or business in Singapore and whose: (i) revenue is not more than SGD 100M; or (ii) whose workforce does not exceed 200 employees. This criteria is applied at the group level.

Under this scheme, the tax deduction for qualifying R&D expenditure on R&D carried out within or outside of Singapore is enhanced as follows:

- A 250% deduction for Singapore-based R&D or 300% enhanced deduction for non-Singapore-based R&D.
- The base deduction and additional 50% deduction, under ITA Sections 14D and 14DA(1), respectively, remain applicable to qualifying R&D expenditure exceeding the SGD 400K or SGD 600K (for qualifying SMEs) expenditure caps per year.
- For the tax years 2013 to 2015, the PIC enhanced deduction is granted under a combined expenditure cap of SGD 1.2M or SGD 1.4M (for qualifying SMEs) over the three-year period. For the tax years 2016 to 2018, the combined cap is SGD 1.2M or SGD 1.8M (for qualifying SMEs) over the three-year period.

In addition, there is an option (in lieu of a tax deduction) to convert up to SGD 100K of qualifying expenditure into a non-taxable cash grant at the conversion rate of 60% (i.e., SGD 60K) per tax year. For qualifying expenditure incurred on or after 1 August 2016, the cash conversion rate is reduced to 40% (i.e., SGD 40K).

Section 14E additional deduction

This provision allows an additional super deduction for R&D projects carried out in Singapore and approved by the Economic Development Board (EDB) before 31 March 2020.

The combined total claims under ITA Sections 14D, 14DA, and 14E with respect to the approved project are capped at 200% of the taxpayer's actual R&D expenditure.

The Section 14E deduction does not apply to expenditure for which the enhanced deduction under the PIC has been allowed.

Singapore

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R&D tax incentives (continued)

Eligible industries and qualifying activities

Research tax incentives are available to all industries. Advance approval is not required to claim tax deductions under ITA Sections 14D, 14DA(1), or 14DA(2).

R&D for tax purposes means "any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, or processes," but does not include:

- Quality control or routine testing of materials, devices, or products;
- Research in the social sciences or the humanities;
- Routine data collection;
- Efficiency surveys or management studies;
- Market research or sales promotion;
- Routine modifications or changes to materials, devices, products, processes, or production methods; or
- Cosmetic modifications or style changes to materials, devices, products, processes, or production methods.

IP and jurisdictional restrictions

The taxpayer must bear the financial risk of carrying out the R&D activities and have sufficient ownership rights in the research results to enable it to commercially exploit the know-how, IP, or other results of the R&D activities.

Only R&D activities undertaken in Singapore qualify for the ITA Section 14DA(1) additional 50% deduction. As long as the R&D is performed in Singapore, the R&D expenditure need not be related to the entity's existing trade or business.

With respect to the Section 14D base and Section 14DA(2) PIC enhanced deductions, R&D may take place outside of Singapore but must relate to the taxpayer's existing trade or business.

If R&D payments are made by a Singapore entity to a R&D organization for R&D performed outside Singapore, a claim for a deduction may be allowed to such entity provided the R&D expenditure is related to the entity's existing trade or business and any benefit attributable to R&D accrues to the Singapore entity itself.

For the Section 14E further deduction and the RISC/IDS grants, the R&D project must be carried out in Singapore and must receive special approval from the Minister (advance application with the EDB is required).

Other concerns

When R&D expenses exceed taxable income, the excess may be carried forward and set off against future taxable profits, provided the shareholders of the company are substantially (i.e., 50% or more) the same on the last day (i.e., 31 December) of the year of the loss and on the first day (i.e., 1 January) of the year of assessment in which the loss is to be set off. A one-year loss carryback is available, subject to a cap of SGD 100K.

Patent box proposal

Singapore's 2017 budget, presented by the finance minister on 20 February 2017, includes a proposal to introduce a "BEPS-compliant" patent box regime. The introduction of a new IP Development Incentive (IDI) would be designed to attract innovation/IP to Singapore and to help Singapore compete globally and implement the minimum standard under BEPS action 5. The IDI would incentivize income generated from the exploitation of IP arising from R&D activities carried out by a taxpayer in Singapore or outsourced to third parties. "IP income" for purposes of the IDI would encompass royalties and other income from the licensing of IP.

The pioneer status incentive and the development and expansion incentive (DEI) and HQ awards incentive (see below) already cover IP income if such income arises from qualifying activities as defined in these programs. These incentives would be phased out in regard to certain specified IP income they cover, i.e., they would apply to the IP income until 30 June 2021 or until the relevant award expires, whichever occurs first, and new pioneer and DEI incentives granted after 30 June 2018 would not cover certain IP income. The legislation relating to this change would likely be given legal effect in the first half of 2018.

The new IDI incentive would be administered by the EDB and would apply from 1 July 2018.

Although details of the IDI are not expected to be released by the EDB until July 2018, it is expected that the IDI will comply with the requirements set out in the final report on BEPS action 5.

Singapore

A wide range of government incentives aim to encourage expanding into Singapore and building up core capabilities and centers of excellence in Singapore

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Government incentives

Innovation

Singapore has a wide range of fiscal incentives to encourage investment in different industries and segments. The following are the more popular:

Research Incentive Scheme for Companies (RISC)/Innovation Development Scheme (IDS)

The RISC and IDS are cash grant incentives that support the development of strategic technologies, capabilities, and the establishment of centers of competence in Singapore, including support for innovation and R&D activities. The scheme can be extended to support strategic and core capability development. Generally, the scheme provides a cash grant of up to 30% of total project costs for a period of three years.

Supportable project costs include expenditure incurred on the following:

- Manpower costs (30% to 50% support);
- Equipment, materials, consumables, and software (30% support);
- Singapore-based professional services (30% to 50% support); and
- IP rights, e.g., licensing, royalties, and the acquisition of technology (30% support).

Application for the grant is reviewed on a project basis and is awarded by the EDB.

Investment

Pioneer Incentive

Provides a corporate tax exemption on income from qualifying activities for a specified period of time. The Minister for Finance considers applications for pioneer status based on whether the applicant's industry, product, or services are not carried on in Singapore on a scale adequate to the economic needs of Singapore and there are favorable prospects for development of the business in Singapore.

Development and Expansion Incentive (DEI) and HQ awards

Provides a preferential tax rate of 5% or 10% on qualifying income derived from qualifying activities, with the support level depending largely on the investment plan. The initial tax incentive period generally is from five to 10 years, which can be renewed with additional business commitments. The total incentive period can be up to 20 years and, for very strategic projects, up to 40 years.

Global trader program

Aims to develop and promote Singapore as an international trading hub. The global trader program provides a preferential tax rate of 5% or 10% on qualifying trade/transactions in qualifying commodities and products, futures, and derivatives (including structured commodity financing).

Finance and Treasury Centre (FTC) incentive

Provides a preferential tax rate of 8% on fees, dividends, interest, and gains from qualifying treasury services and activities, as well as a withholding tax exemption on interest payments made on loans from bank and approved network companies for FTC activities.

Approved royalties incentive

Provides reduced or no withholding tax on royalty payments to access advanced technology and know-how.

Investment allowance

Provides an additional allowance (tax depreciation) on a percentage (from 30% to 100%) of approved fixed capital expenditure. This is in additional to the base allowance of 100%.

Land intensification allowance

Provides an initial allowance of 25% and an annual allowance of 5% on qualifying capital expenditure incurred for the construction/or renovation/extension of a qualifying industrial building or structure.

Slovakia

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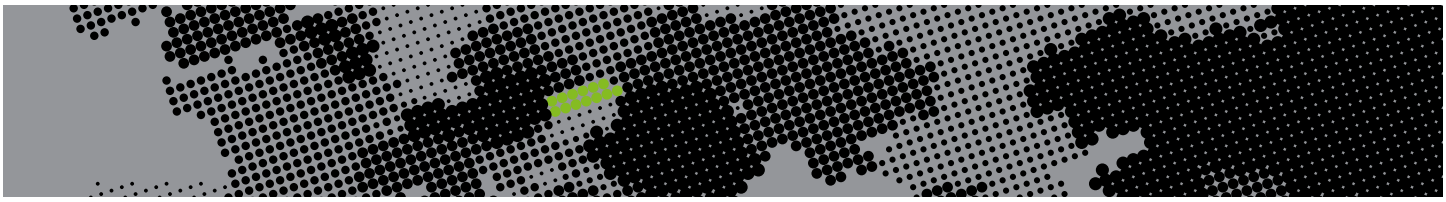
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Super deduction	125% super deduction for qualified research expenses (QREs), plus a 25% super deduction for QREs exceeding the prior year QREs	125% super deduction for qualified research expenses (QREs), plus a 25% super deduction for QREs exceeding the prior year QREs
R&D grant (national)	Limited availability	No	No	Arrears	Cash grant, tax relief	Varies	Varies
R&D grant (EU)	Limited availability	No	Yes	Arrears	Cash grant	Varies	Varies
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX	Yes	No	No	Arrears	Cash grant, tax relief	Varies, depending on the project, volume of the investment, and geographic location	Varies, depending on the project, volume of the investment, and geographic location
Employment	Yes	No	No	Arrears	Cash contribution		
Training	Yes	No	No	Arrears	Cash contribution		

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



Slovakia

Slovakia offers a super deduction for qualified expenditure, ranging from 125% to 150%

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R&D tax incentives

Background

Slovakia's corporate tax rate is 21%.

Slovakia introduced a 125%–150% R&D super deduction effective for tax years beginning on or after 1 January 2015. Slovakia also offers tax credits for companies located in less developed regions of the country and for specific projects.

Nature of incentives

R&D super deduction

A super deduction equal to 125% of qualified costs incurred during the implementation of R&D projects is available, as is an additional super deduction of 25% for the portion of the current year qualifying R&D expenditure that exceeds the prior year qualifying expenditure. If the super deduction cannot be utilized in the year it is claimed, it may be carried forward and utilized over the next four taxable periods. The super deduction may not be combined with any other type of incentives.

Tax relief for technological centers

To encourage companies to locate (and expand) in less developed regions of Slovakia, the government offers state aid in the form of a tax credit. The amount of the credit is determined by the Ministry of Economy and can range from 25% to 35% of qualified costs (capital investment or labor costs for two years), depending on the region. The tax credit is applied against the annual income tax liability until it is fully utilized or the credit expires (10 years after it is granted).

A special formula is used to determine the amount of the credit for companies that expand.

Expanding companies also can apply for a cash grant in lieu of the tax credit.

Tax relief for R&D projects

The Ministry of Education can grant a tax credit to companies that pursue certain types of projects that entail basic/applied research, experimental development, or certain feasibility studies.

Costs that are considered in determining the amount of the credit include operating costs, as well as the cost of IP protection and the reimbursement of wages for the temporary assignment of external researchers. The percentage applied by the government to qualifying costs to determine the amount of the tax credit depends on the size of the company (a higher percentage is applied to SMEs) and the type of project (a higher percentage is applied to research as opposed to development projects). Companies also can apply for cash grants.

Other non-tax-related R&D incentives

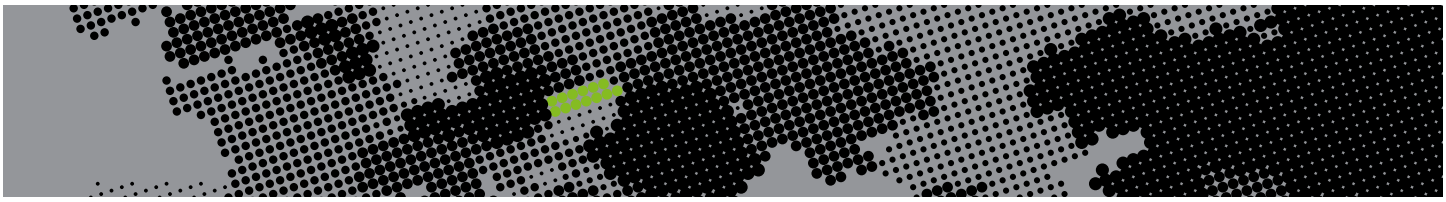
Cash grant programs are available for R&D, including capital expenditure (CAPEX) investment or operational costs (OPEX) from both EU funds and from the Slovak government.

Eligible industries and qualifying costs

R&D super deduction

To qualify, R&D must have a measurable element of novelty and must address technical uncertainties. Qualifying research can address issues that are known in the industry, provided the taxpayer can prove that it must discover the information it needs to develop new/improved products, services, or processes, because the information is inaccessible, unusable, or was not available at the time the project commenced.

Qualifying activities include the introduction of new or improved technology, systems, or services, and the production of new or improved materials, products and equipment, the design and verification of prototypes, pilots, or demonstration equipment.



Slovakia

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R&D tax incentives (continued)

The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual.

Qualifying expenses include direct costs (e.g., wage costs, costs of materials, or overhead expenses) and indirect costs (e.g., depreciation of assets or utility costs).

Fees paid for subcontracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutions. Fees paid to certified private R&D organizations also are eligible provided the organization does not also claim the super deduction for the costs it incurred in providing the qualified services. The super deduction excludes expenses paid through government and public subsidies.

Technological centers
All industries, except industries excluded for EU regional aid (e.g., agriculture, steel industry), generally are eligible to apply for the tax credits offered to technological centers. Technological centers can be located anywhere in Slovakia, except for the Bratislava region. The eligibility criteria for technological centers are:

- The acquisition of tangible and intangible assets must be at least EUR 500K, at least 50% of which is covered by the equity of the applicant;
- At least 70% of the employees must have a degree from an accredited university; and
- Establishing or expanding the technological center must result in at least 30 new jobs.

Companies also are required to operate the newly created or expanded part of technological centers for at least five years, but not less than the period it takes to fully utilize the tax credit.

Tax relief for R&D projects
Eligible costs include direct costs (e.g., wage costs, costs of business trips, costs of repairs, procurement, or overhead expenses) and indirect costs (e.g., depreciation of assets or costs on energy) depending on the type of R&D project.

To qualify for tax relief, the project must result in a minimum level of qualified expenditure, which depends on the size of the entity (a SME or a large enterprise) and the type of activity (applied or basic research):

- Applied research: EUR 1.5M (SME) to EUR 3.5M (large enterprise)
- Basic research: EUR 250K (SME) to EUR 1M (large enterprise)

Entities that are awarded tax relief must continue operating the R&D workplace for at least five years after the incentive is fully utilized.

IP and jurisdictional restrictions
There are no IP registration requirements.

Other concerns
R&D super deduction
Government pre-approval is not required to claim a super deduction, but the taxpayer must prepare documentation specifying the qualified activities that the researchers plan to undertake for the project before the project commences. This documentation typically includes:

- A description of the project, specifying the objectives;
- A project schedule, specifying the phases of the project; and
- Details regarding the administration of the project, including project staffing and budget.

Technological centers
The incentives for technological centers are subject to the approval of the Slovak government. The application process is time consuming and difficult.

Tax relief for R&D projects
R&D incentives depend on the availability of funding and the application process is open only if there is a published call. This incentive has many practical limitations and rarely is used.

Slovakia

Government incentives encourage investments in the less-developed regions

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Government incentives

Innovation and Investment

Investment incentives to support investments in economically less-developed regions in Slovakia are provided in accordance with the Act on Investment Incentives and are subject to approval procedures. The rules are based on Slovakia's legal regulations and EU legislation.

In general, the forms and extent of the investment incentives depend on the type of investor project, the volume of investment, and the geographical location of the investment.

Under the law, Slovakia can provide the following investment incentives:

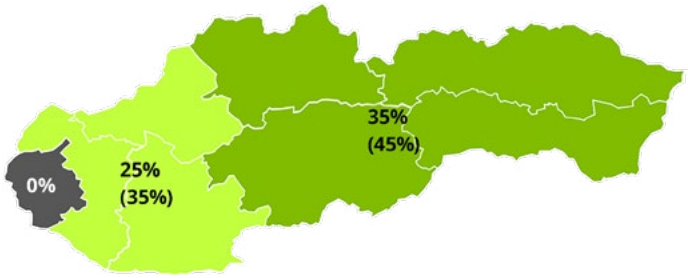
- Tax credit (for up to 10 years);
- Cash grant for the purchase of assets;
- Cash contribution for the creation of new jobs; and
- Transfer of land (owned by the municipality/state) at lower than market value.

The following four types of projects may be granted investment aid:

- Industry;
- Technology centers;
- Shared services centers;
- Tourism.

The incentives can be applied either to a new project (a greenfield investment) or to the expansion of an existing facility. The rules governing the minimum investment amounts, timing, and extent of incentives basically are the same for a new investment in a new establishment and for the expansion of an existing establishment. The beneficiary of the incentive must be a Slovak legal entity with its registered seat in the Slovak Republic, although an application can be submitted by the parent company.

Maximum percentages of incentives



For the investment plans of SMEs, the maximum aid amount can be increased by 10% for medium-sized enterprises and 20% for small enterprises.

The category of micro and SMEs includes enterprises that employ fewer than 250 persons and that have an annual turnover not exceeding EUR 50M, and/or an annual balance sheet total not exceeding EUR 43M. Within the SME category, a small enterprise is defined as an enterprise that employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10M.

All companies must submit applications to the Ministry of Economy. The application process consists of several steps, including filing the initial investment plan, which is reviewed by the ministry and other relevant institutions. Following the review, the Ministry of Economy prepares an offer of investment incentives to the investor. If the investor agrees, the application for investment incentives can be filed, and then the Ministry of Economy issues a decision on whether the incentives should be granted. The entire process can take five to nine months.

R&D stimuli

The conditions for granting and using the R&D incentives are set out in the Act on Stimuli for Research and Development. These incentives can be requested for the establishment of a new workplace undertaking R&D activities or for the extension of an existing workplace.

The following investment incentives for R&D activities are available:

- Subsidy from state budget funds to:
  - Support basic research, applied research, and experimental development;
  - Development of project feasibility studies;
- Income tax relief for a proportion of the tax base.

South Africa

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Yes	Yes	Advance	Super deduction	150% of qualifying expenditure	150% of qualifying expenditure
R&D grant (national)—Support Program for Industrial Innovation (SPII)	Yes	Yes	Yes	Advance	Grants	ZAR 5M	ZAR 2M
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX and Training—Section 12I Tax Incentive	Yes	Yes	Yes	Advance	Super deduction	Investment: Maximum additional deduction of ZAR 900M (tax savings ZAR 252M) Training: Maximum additional deduction of ZAR 30M (tax savings ZAR 8.4M)	Investment: Maximum additional deduction of ZAR 900M (tax savings ZAR 252M) Training: Maximum additional deduction of ZAR 30M (tax savings ZAR 8.4M)
CAPEX and Training—Black Industrialists Scheme (BIS)	Yes	Yes	Yes	Advance	Cost-sharing grants	ZAR 50M	ZAR 50M

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

South Africa

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
CAPEX—Automotive Investment Scheme (AIS)	Yes	Yes	Yes	Advance	Non-taxable grants	Ranges between 20% to 35% of the value of qualifying investments	Ranges between 20% to 35% of the value of qualifying investments
CAPEX—Critical Infrastructure Program (CIP)	Yes	Yes	Yes	Advance	Cost-sharing grants	ZAR 50M	ZAR 50M
CAPEX—Manufacturing Competitiveness Enhancement Program (MCEP)	Yes	Yes	Yes	Advance	Grants	Varies	Varies
Environmental sustainability							
Section 12L tax incentive	Yes	Yes	Yes	Arrears	Tax incentive based on energy savings	Tax incentive calculated as 95c/kWh of energy savings	Tax incentive calculated as 95c/kWh of energy savings
Carbon tax allowances	Yes	Yes	Yes	Advance	Tax allowances against carbon tax	Varies	Varies
Other							
Film and television production incentives	Yes	Yes	Yes	Advance	Grants	Varies	Varies
Strategic Partnership Program (SPP)	Yes	Yes	Yes	Advance	Cost sharing grant	ZAR 15M	ZAR 15M
Agro-processing support scheme	Yes	Yes	Yes	Arrears	Cost sharing grant	ZAR 20M	ZAR 20M

Key: =Yes =Limited availability =No =N/A

South Africa

South Africa offers a 150% super deduction for qualifying R&D expenditure

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R&D tax incentives

Background

South Africa's standard corporate tax rate is 28%; small business corporations are eligible for a rate ranging from 0% to 28%.

Nature of incentives

South Africa offers a super tax deduction of 150% on all qualifying R&D activities, as well as an accelerated asset allowance. The R&D tax incentive targets scientific and technological activities that may lead to the creation, development, or improvement of an invention, functional design, computer program, or to knowledge essential to the use of the invention, functional design, or computer program.

R&D super deduction

The super deduction is an amount equal to 150% of qualifying operating expenditure incurred directly for the purposes of R&D relating to scientific or technological activities. Pre-approval from the Department of Science and Technology (DST) is required to qualify for the super deduction, and only costs incurred from the date an application is submitted for pre-approval will qualify. Non-capital costs, including supplies, in-house and contract labor, overhead, etc. are eligible for the super deduction if they are directly related to the R&D activities.

R&D accelerated depreciation

Capital expenditure incurred to develop or manufacture assets used in the conduct of qualifying R&D activities qualify for accelerated depreciation. The depreciation rates are as follows:

- For new and unused plant or machinery purchased and brought into use before 1 October 2012:
  - 50% in the year the asset is brought into use for the first time by the taxpayer;
  - 30% in the second year of assessment; and
  - 20% in the final year of assessment.
- For used plant or machinery placed in service after 1 October 2012:
  - 20% in the year the used asset is brought into use; and
  - 20% in each of the four succeeding years of assessment. Apportionment is not available for partial years.

New and unused buildings where more than 50% of the building is used for R&D activities will be eligible for a 5% annual allowance for up to 20 years.

Eligible industries and qualifying costs

Industries that typically are eligible for the R&D super deduction include the following:

- Pharmaceutical (costs incurred in developing generic medicines and conducting related clinical trials are included if they occurred after 1 October 2012);
- Software services;
- Software development;
- Design centers;
- Automotive;
- Energy and utilities;
- Mining and natural resources; and
- Agricultural (costs incurred in developing agricultural chemicals and performing trials may qualify).

For R&D expenses to qualify, they must relate directly to activities undertaken within South Africa and involve systematic investigative or experimental activities, the result of which is uncertain for the purpose of:

- Discovering non-obvious scientific or technological knowledge;

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R&D tax incentives (continued)

- Creating an invention, functional design, computer program, or knowledge essential to the use of such invention, functional design, or computer program; or
- Significantly improving an invention, functional design, computer program, or knowledge if that development or improvement relates to:
  - New or improved function;
  - Improvement of performance;
  - Improvement of reliability; or
  - Improvement of quality.

Typical R&D activities include the following:

- New or existing product development;
- Product improvement;
- Investigative trials;
- Development of designs and patents;
- Manufacturing and process improvement; and
- Production development.

These expenses must be intended to be used by the taxpayer in the production of income and related to the taxpayer's trade and business. Expenses incurred while conducting the following activities do not qualify as R&D expenditure:

- Market research, market testing, market demonstration trials, and sales promotion;
- Financing, administration, compliance, and similar expenditure;
- Routine testing, analysis, collection of information, and quality control in the normal course of business;
- Development of internal or management business processes, such as internal use tools, accounting or HR software, or management reporting software. There is a limited exception if the internal business processes are intended mainly for the sale of, or for granting the use of, or the right or permission to use, to persons that are not connected parties in relation to the person carrying on the R&D for social science research, including the arts and humanities;
- Oil and gas or mineral exploration or prospecting, except R&D carried on to develop technology used for that exploration or prospecting;
- Creation or development of financial instruments or financial products;
- Creation or enhancement of trademarks or goodwill;
- Obtaining the grant, restoration, and extension of a patent;
- Registration and renewal of a trademark;
- Registration and extension of registration of a design; and
- Acquisition of an invention, patent, design, copyright, other similar property, or knowledge essential to the use of such patent, design, copyright, or other property or the right to have such knowledge imparted.

IP and jurisdictional restrictions

The R&D activities must be carried on in South Africa. There is no specific restriction on the IP.

Other concerns

If the business is in a tax loss position, the deduction may be carried forward until fully utilized.

When a company receives funding from another company (or another entity), the company that can determine and alter the research methodology may claim the deduction. Special rules apply to controlled groups of companies.

If a taxpayer receives a government grant to fund the research activities, an amount equal to the funded portion may not be taken into account for the purpose of the deduction.

Pre-approval is required from the DST, and only expenditure incurred from the date an application is submitted to the DST will qualify.

A joint government-industry task team was appointed by the Minister of Science and Technology at the end of 2015 to deal with the issues that arose with the administration of the incentive (i.e., challenges with the preapproval process, administrative burden of information requirements, lack of an appeal process for non-approved applications, etc.). The task team has completed its report and its recommendations are being considered.

South Africa

South Africa offers a wide range of government incentives

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Government incentives

Innovation

Support Program for Industrial Innovation (SPII)

The SPII is designed to promote technological developments in South Africa's industry. There are two schemes:

- **SPII Product Process Development Scheme**, which offers a maximum of ZAR 2M to small, very small, and micro-enterprises and individuals; and
- **SPII Matching Scheme,** which offers a maximum of ZAR 5M to all enterprises and individuals, including large enterprises.

The value of the benefits for both schemes depend on the level of Broad-Based Black Economic Empowerment (B-BBEE) ownership as represented in the following table:

Applicant type	Scheme limit	0%–25% B-BBEE ownership	25.1%–50% B-BBEE ownership OR >50% ownership by women/ disability	> 50% B-BBEE ownership
SPII PPD scheme				
Small, very small, and micro-enterprises and individuals[1]	Maximum grant of ZAR 2M	50% of qualifying costs incurred	75% of qualifying costs incurred	85% of qualifying costs incurred
SPII matching scheme				
All enterprises and individuals (other than large enterprises)	Maximum grant of ZAR 5M	50% of qualifying costs incurred	65% of qualifying costs incurred	75% of qualifying costs incurred
Large enterprises	Maximum grant of ZAR 5M	50% of qualifying costs incurred	50% of qualifying costs incurred	50% of qualifying costs incurred

Technology and Human Resource for Industry Program (THRIP)

THRIP is a cost sharing grant of up to ZAR 8M for a period of three years for approved projects in applied R&D in science, engineering, and technology. The project must have a partnership, with at least one partner being a South African research institution. The duration of the partnership must be equal to or longer than the period of the THRIP. The project must include at least one fourth year level South African student registered in a program in the science, engineering, and technology fields, who will be involved and trained through the research being conducted. The project must be applied research in the fields of science, technology, or engineering, and the output should aim to make a significant contribution to improving the industry partner's competitiveness.

Investment

Section 12I tax incentive

The section 12I tax incentive is designed to support greenfield investments (new industrial projects that utilize only new and unused manufacturing assets) and brownfield investments (expansions or upgrades of existing industrial projects). The tax incentive offers three tax allowances: investment allowance for qualifying manufacturing assets, training allowance for skills development costs, and additional tax assessed loss if the use of the investment allowance results in assessed losses.

- Companies can receive an investment tax allowance (i.e., additional deductions) of between ZAR 350M to ZAR 900M.
- Companies can receive a training tax allowance of ZAR 36K per employee capped at ZAR 20M for qualifying status projects and ZAR 30M for preferred status projects. This is illustrated in the following table:

Investment allowance

Type of project	Status	Percentage (%)	Maximum allowance (ZAR)	Tax benefit (ZAR)
Brownfields	Preferred	55%	550M	154M
Brownfields	Normal	35%	350M	98M
Greenfields	Preferred	55%	900M	252M
Greenfields	Normal	35%	500M	154M

Training allowance

Type of project	Status	Maximum allowance (ZAR)	Cap (ZAR)
Brownfields	Preferred	30M	36K per employee
	Normal	20M	36K per employee
Greenfields	Preferred	30M	36K per employee
	Normal	20M	36K per employee

1. To qualify for this scheme, the beneficiary must have a turnover of less than ZAR 13M, assets of less than ZAR 5M, and fewer than 50 employees

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Government incentives (continued)

- Under section 12I, an additional tax assessed loss created by the deduction of the additional investment allowance will be increased by the prescribed rates at the time of the loss. This ensures that a company that creates an assessed loss by the deduction of the additional investment allowance is not penalized by inflation when it carries over the assessed losses to future years.

Investment allowances are determined by the status of the project as either a preferred status or a qualifying status. The status of a project is determined by a point scoring system.

Black Industrialists Scheme (BIS)
The purpose of the BIS is to leverage the state's capacity to unlock the industrial potential that exists within black-owned and managed businesses that operate within the South African economy. The grant is a cost-sharing grant from 30% to 50% with a maximum of ZAR 50M. For example, a cost-sharing grant of 50:50 requires that 50% of the total project be funded by the company and the remaining 50% to be funded by the Department of Trade and Industry (DTI). Support is offered for new machinery and equipment, new plant or expansions of existing plant, commercial vehicles, feasibility studies, post-investment support, and business support. The project must have a minimum investment of ZAR 30M and involve manufacturing or manufacturing-related activities.

Automotive Investment Scheme (AIS)
The AIS is designed to grow and develop South Africa's automotive sector through investment in new and/ or replacement models and components that will increase plant production volumes, sustain employment, and/ or strengthen the automotive value chain. The AIS provides for a non-taxable cash grant of up to 20% of the value of qualifying investment in productive assets and 25% of the value for qualifying investments in productive assets by component manufacturers and tooling companies.

An additional 5% may be available for projects that maintain their base year employment figures throughout the incentive period. A further 10% may be eligible where projects relate to:

- **Light motor vehicle manufacturers:** A specified increase in unit production per plant; or
- **Component manufacturers:** A specified increase in turnover and manufacturing of components that currently are not being manufactured in South Africa.

Critical Infrastructure Program (CIP)
The CIP grant aims to leverage investment by supporting infrastructure deemed critical, thus lowering the cost of doing business. The CIP grant is a cost-sharing grant available to infrastructure projects upon the completion of verifiable milestones. Infrastructure is deemed "critical" to the investment if such investment would not take place without the infrastructure investment (i.e., necessary for optimal operations). The CIP offers a grant of 10% to 30% of the total qualifying infrastructure development costs, up to a maximum of ZAR 50M based on the achieved score in the economic benefit criteria. Projects that alleviate water and/or electricity dependency on the national grid may receive a grant of 10% to 50%, up to a maximum of ZAR 50M. Distressed municipalities and state-owned industrial parks can receive a maximum grant of up to 100%, capped at ZAR 50M for infrastructural development.

Manufacturing Competitiveness Enhancement Program (MCEP)
The MCEP is a support scheme that offers manufacturing companies' incentives to raise their competitiveness and retain jobs. The MCEP has three sub-programs: (i) production incentive; (ii) MCEP cluster program; and (iii) industrial financing loan facilities, which will be managed by the DTI and the Industrial Development Corporation (IDC).

The production incentive is the largest component of the MCEP and is based on a calculation of MCEP credits for each enterprise. The grant is calculated on a cost-sharing basis as a percentage of the average manufacturing value-added (MVA) over two years. The grant is based on the size of the enterprise and ranges between 10% and 25% of the MVA based on the historical cost of the entity's assets. Applicants may apply their credits to a combination of any of the following five sub-components:

- Capital investment grant;
- Green technology and resource efficiency improvement grant;
- Enterprise-level competitiveness improvement grant;
- Feasibility studies grant; and
- Cluster interventions grant.

The production incentive currently is closed for applications, but is expected to be re-opened in the future.

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Government incentives (continued)

The MCEP cluster program provides financial assistance to clusters and partnerships of companies in the manufacturing sector, specifically engineering services and conformity assessment services. The program offers a cost-sharing grant of 80% of the costs of the cluster's activities, capped at ZAR 50M. The eligible cluster must have five or more members that are registered for tax or non-profit organizations. Clusters may include:

- Entities or organizations in the service sector related to manufacturing; and
- Entities or organizations that provide business development support services, engineering services, and conformity assessment services in the manufacturing sector.

The MCEP cluster program currently is closed for applications but is expected to be re-opened in the future.

The industrial financing loan facilities incentive has two components:

- Pre- and Post-Dispatch Working Capital Facility that offers a working capital of up to ZAR 30M for a period of four years at a fixed interest rate of 6%; and
- The Industrial Policy Niche Project Funds, which the IDC deems to be eligible based on the potential for job creation, diversification of manufacturing output, and contribution to exports.

Energy sustainability

Section 12L tax incentive

The section 12L tax incentive aims to promote efficient use of energy as a means of safeguarding the security of the energy supply and to combat greenhouse gas emissions. This is also the first "Negawatt-based[2]" tax incentive. The energy savings tax incentive is calculated at an equivalent of 95c/kWh and is dependent on an energy savings certificate issued by the South African National Energy Development Institute.

Carbon tax allowances

As a cosignatory of the Paris agreement (COP21), South Africa has committed to reduce Greenhouse Gas Emission by 34% by 2020 and 42% by 2025. South Africa has chosen a carbon tax (as opposed to emissions trading) as means to address this.

A new Carbon Tax bill has been approved for submission to parliament, and a revised bill is expected to be published before February 2018 for public comments. The Carbon Tax is expected to be levied at a rate of ZAR 120 per ton CO2e emissions (determined by multiplying production/fuel usage with the published emissions factor). Entities will be liable for their:

- Fossil fuel combustion emissions;
- Fugitive emissions (i.e., emissions that occur from the release of greenhouse gases during the extraction, processing and delivery of fossil fuels, such as fugitive emissions from coal mining); and
- Industrial processes and product use emissions.

The draft Carbon Tax bill includes several allowances:

- A basic tax-free allowance of 60% for fossil fuel combustion emissions, 60% to 70% for process emissions, and 10% for fugitive emissions, which would reduce the effective tax rate for most Carbon Tax payers from ZAR 120 per ton CO2e to ZAR 48 per ton CO2e;
- A trade exposure allowance that would assist certain sectors that are particularly exposed to trade, and that could reach a maximum of 10%;
- A performance (also called Z-factor) allowance that would reward entities with an allowance of up to 5%. To qualify for this allowance, the entity would have to perform better than an approved benchmark figure;
- A 5% allowance of 5% for entities that participate in the Carbon Budget development process operated by the Department of Environmental Affairs; and
- A carbon offsets allowance of between 5% and 10% that would allow companies to purchase and retire carbon offsets to reduce their Carbon Tax liability. These offsets would have to originate from within South Africa and be registered using the Cleaner Development Mechanism, the Verified Carbon Standard, or the Gold Standard methodologies.

The maximum total allowance would be 95%, which would effectively reduce the Carbon Tax rate to ZAR 6 per ton CO2e.

The carbon tax would be administered as if it were an environmental levy as contemplated in section 54A of the Customs and Excise Act, 1964 that would have to be collected and paid in accordance with that act.

2. A Negawatt is a theoretical unit of power representing an amount of electrical power (measured in watts) saved.

South Africa

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Government incentives (continued)

Since the draft will be revised, the Carbon Tax is expected to increase its alignment with the Department of Environmental Affairs' Mandatory Reporting of Greenhouse Gas Emissions regulations in terms of coverage and thresholds. The threshold generally would be 10 MW thermal input for fossil fuel combustion, meaning that many sectors that were thus far excluded from the Carbon Tax could be included in the new bill.

The final tax rate, exemptions, and the actual date of implementation will be determined by the Minister of Finance through the annual budget process, but the Carbon Tax should come into effect in January 2019 at the latest.

Other

Film and television production incentives

Three incentives are offered for film and television productions: (i) Foreign-Film and Television Production and Post-Production; (ii) South African Film and Television Production and Co-Production incentive; and (iii) South African Emerging Black Filmmakers. The incentives aim to promote South Africa's film production and post-production industry.

Strategic Partnership Program (SPP)

The SPP aims to encourage large sector enterprises (strategic partners) to support, nurture, and develop SMEs within their value chain/sector to enhance manufacturing services. The SPP is a cost-sharing grant of 50:50 with a maximum benefit of ZAR 15M. The value of the grant is determined by the number of suppliers supported by the project with a minimum support of three suppliers.

Agro-Processing Support Scheme (APSS)

APSS is a competitive scheme based on the DTI economic benefit criteria. Both new and existing agro-processing/beneficiation projects may qualify for APSS.

The APSS is targeted at five key sub-sectors as follows:

1. Food and beverage value addition and processing;
2. Furniture manufacturing;
3. Fibre processing;
4. Feed production; and
5. Fertilizer production.

The APSS offers a cash grant between 20% and 30% to a maximum of ZAR 20M over a two-year investment period on qualifying investments. The percentage of the cost-sharing grant is determined based on the qualifying enterprise and investment size, as follows:

Applicant	Historical cost of assets	Qualifying investment cost	Grant percentage	Maximum grant amount
New entity	N/A	ZAR 1M to ZAR 10M	30%	ZAR 3M
Existing entity	≤ ZAR 10M	ZAR 1M to ZAR 10M	30%	ZAR 3M
New entity	N/A	>ZAR 10M	20%	ZAR 20M
Existing entity	> ZAR 10M	>ZAR 10M	20%	ZAR 20M

An additional 10% grant may be offered based on the DTI's discretion for projects that meet all of the following economic benefit criteria:

- Increase base year employment by at least 25%;
- Achieve a level 1 on the B-BEE codes of good practice;
- Be located in state-owned industrial parks or areas of high unemployment (more than 25%); and
- Procure at least 70% of inputs or equipment and machinery from local manufacturers.

The initial window periods for applications is as follows:

- 1 June 2017 to 31 August 2017; and
- 1 October 2017 to 31 January 2018

The DTI will publish a schedule of future windows on its website.

South Korea

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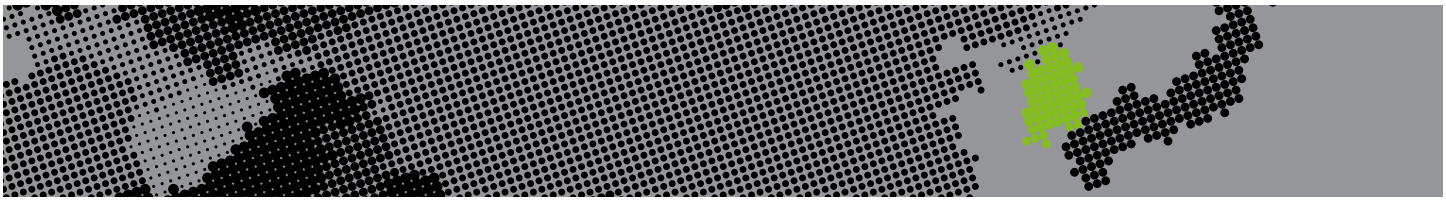
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Tax credit	Credit of 2%–40% of qualified research expenses	Credit of 25%–50% of qualified research expenses
R&D grant (national)	No	No	N/A	N/A	N/A	N/A	N/A
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	Yes	No	Yes	Arrears	Tax exemption	N/A	50% of corporate income tax on capital gains from the transfer or 25% of the corporate income tax on rental income
Investment							
CAPEX—Tax credit for investing in facilities for productivity improvement	Yes	No	Yes	Arrears	Investment tax credit	1% of qualifying investments	3%–7% of qualifying investments
CAPEX—Tax credit for investing in safe facilities	Yes	No	Yes	Arrears	Investment tax credit	1% of qualifying investments	3%–7% of qualifying investments

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.



South Korea

Overview (continued)

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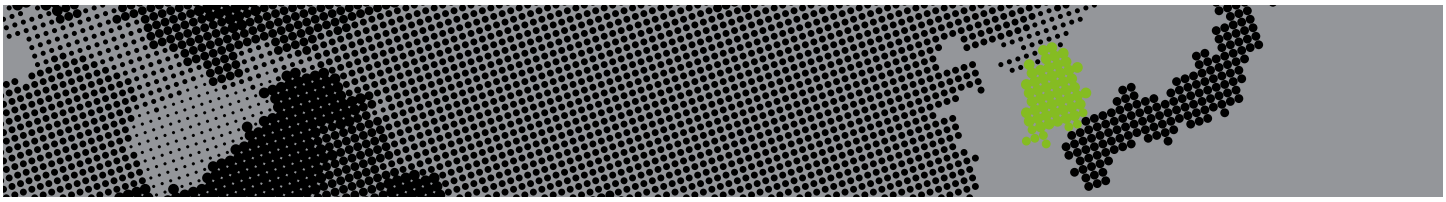
Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
CAPEX—Tax credit for investing in facilities for commercialization of new growth engine technology	Yes	No	Yes	Arrears	Investment tax credit	5% of qualifying investments	7%–10% of qualifying investments
Employment tax credit for investing in the workforce	Yes	No	Yes	Arrears	Tax credit	Varies	Varies
Employment tax credit for creation of employment for young persons	Yes	No	Yes	Arrears	Investment tax credit	KRW 2M, multiplied by the number of young employees	KRW 5M, multiplied by the increase in the number of young employees
Environmental sustainability							
Tax credit for investing in facilities for energy-saving	Yes	No	Yes	Arrears	Investment tax credit	1% of qualifying investments	3%–6% of qualifying investments
Tax credit for investing in facilities for environmental protection	Yes	No	Yes	Arrears	Investment tax credit	1% of qualifying investments	3%–10% of qualifying investments
Other							
Tax incentive for foreign-invested companies	Yes	No	Yes	Arrears	Tax exemption	Exemption on 100% of the capital injection amount	Exemption on 100% of the capital injection amount

Key: =Yes =Limited availability =No =N/A



South Korea

Korea offers incremental and volume-based research credits, as well as investment tax credits that will expire at the end of 2018

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R&D tax incentives

Background

The corporate tax rate in South Korea ranges from 11% to 24.2%[1].

South Korea offers a general tax credit for R&D expenditure, as well as an additional credit for investment in R&D equipment.

Nature of incentives

The amount of the R&D incentive depends on whether the company that engages in the research is considered a SME, a medium-sized company, or a large company:

- A SME has annual sales revenue ranging from KRW 40B to KRW 150B, depending on the business category. The assets of a SME must be valued under KRW 500B;[2]
- A medium-sized company is one that does not qualify as a SME, but whose average sales revenue for the previous three years is less than KRW 500B; and
- A large company is a company that is not a SME or medium-sized company.

SMEs

A SME is entitled to a tax credit equal to the greater of: (1) 50% of the current year R&D expenditure exceeding the average R&D expenditure for the previous four years; or (2) 25% of the current year R&D expenditure. A 30% tax credit is computed based on the current R&D expenditure related to the New Growth Engine Industry or Original Source Technology program designated by the government authority.

A tax credit equal to 10% of the purchase price of certain IP purchased by a SME from a Korean party is available.

A patent box also is available to SMEs: if a SME transfers or leases IP it developed to a Korean party, the SME is entitled to a tax exemption in the amount of 50% of the corporate income tax on capital gains arising from the transfer or 25% of the corporate income tax on rental income.

Medium-sized companies

Medium-sized companies are entitled to a tax credit that is the greater of: (1) 40% of the current year's R&D expenditure exceeding the average R&D expenditure for the previous four years; or (2) 8% of the current year R&D expenditure.

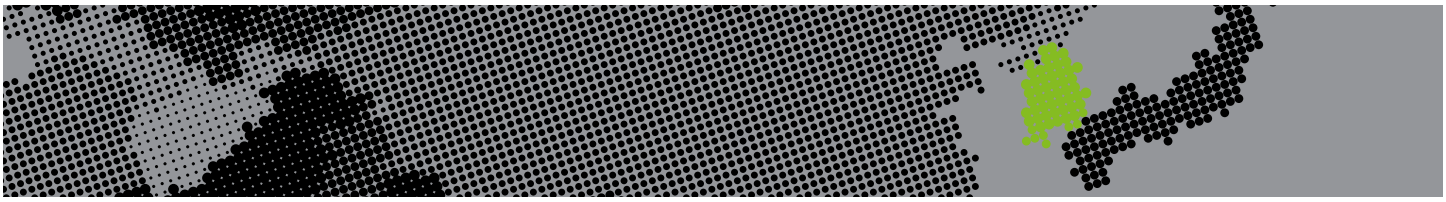
Large companies

Large companies are entitled to a tax credit that is the greater of:

(1) 30% of the current year R&D expenditure exceeding the average R&D expenditure for the previous four years; or

(2) 1% + 50% of the R&D expense ratio (i.e., current R&D expense divided by sales revenue) of the current year R&D expenditure. The rate is capped at 3% of the current year R&D expenditure[3].

1. The government has proposed a tax reform that includes an increase in the corporate income tax rate to 27.5% for income above KRW 200B. The proposal has not yet been passed by the National Assembly.
2. A company will not qualify as a SME if a large company (i.e., a company with assets over KRW 500B) owns more than 30% of the stock of the company, i.e., all associated companies are considered in determining whether a company qualifies as a SME by applying a 30% ownership rule.
3. Under a proposed tax reform, the rate would include only 50% of the R&D expense ratio and would be capped at 2%. The proposal has not yet been passed by the National Assembly.



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R&D tax incentives (continued)

Additional R&D tax incentives

- **New Growth Engine Industry or Original Source Technology Programs:** An additional R&D tax credit for large and medium-sized companies is computed on qualified expenditure related to these programs under the following formula that determines the credit rate:
  - 20% + (R&D expenditure for New Growth Engine Industry and Original Source Technology program/total sales x 3);
  - The total rate is capped at 30%.
- **Tax credit for IP purchased from SMEs:** If a large company purchases certain IP prescribed by the tax law from a Korean SME, the large company is entitled to claim a tax credit in an amount equal to 5% of the purchase price.

Unutilized R&D credits may be carried forward for five years.

Investment tax credit for R&D equipment

The investment tax credit for R&D equipment is 1% of the investment in equipment used in R&D for large companies, 3% for medium-sized companies, and 6% for SMEs.

Eligible expenses include the cost of machinery, facilities, tools, office machines, telecommunications instruments, testing machines, optical instruments, etc. used to carry out the R&D activities.

Unused R&D credits may be carried forward to the following five years.

Eligible industries and qualifying costs

R&D activities include research conducted by the certified R&D department of the company and/or qualifying bodies (i.e., universities, colleges, research institutions) to develop technology for the company, trademark designs, and development, manpower training, and quality control.

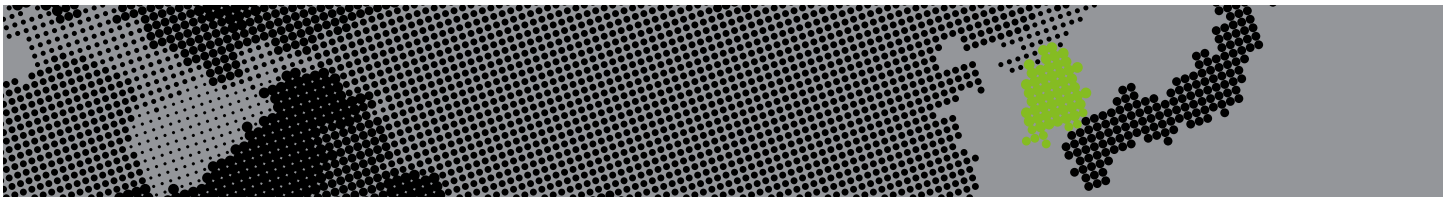
Qualifying R&D costs include labor costs (salaries, wages, bonuses, etc.), materials costs (samples, parts, and raw materials used in the conduct of R&D), rent for R&D equipment, commissions paid to the qualifying body, training costs, and other costs (trademark development costs, design development costs, consulting fees, and quality guarantee costs). However, R&D subsidized by the government is not eligible for R&D tax credit.

IP and jurisdictional restrictions

All R&D expenditure directly related to the R&D activities of the company may be claimed in the tax credit computation, regardless of where the R&D activities are carried out, except for research subcontracted to academic institutions, which must be located in South Korea. Any resulting IP does not have to be held by the South Korean company.

Other concerns

Companies may file an amended tax return to claim the credit up to five years from the date the original return was due.



South Korea

South Korea offers tax credits to encourage capital expansion, employment, and improved productivity

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Government incentives

Investment

CAPEX—Tax credit for investing in facilities for productivity improvement

The Tax Incentive Limitation Law (TILL) provides that if a resident makes an investment to increase productivity (e.g., automated facility, a high-tech facility, an ERP system, etc.) on or before 31 December 2019, investment tax credits may be applied to reduce the corporate income tax in the following amounts:

- Large companies: 1% of qualifying investments;
- Medium-sized companies: 3% of qualifying investments; and
- SMEs: 7% of qualifying investments.

Unused investment tax credits may be carried forward to the following five years.

CAPEX—Tax credit for investing in safe facilities

The TILL provides an investment tax credit (the same as above) for the purchase of new qualifying facilities or equipment to improve safety (e.g., industrial accident prevention facility, earthquake-proof facility, etc.). This credit is computed on qualifying investments made on or before 31 December 2019. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

CAPEX—Tax credit for investing in facilities for commercialization of new growth engine technology

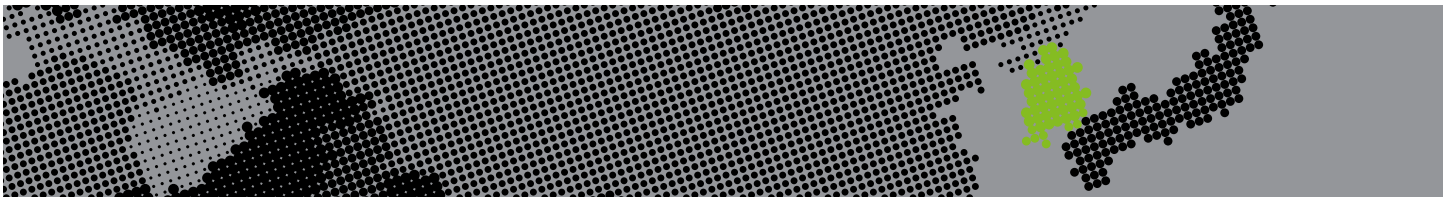
The TILL provides an investment tax credit (5% for large companies, 7% for medium-sized companies, and 10% for SMEs) for the purchase of new qualified facilities or equipment designed to promote the commercialization of new growth engine technology (e.g., facilities for the manufacturing of new drugs for which patents are obtained by a company based on clinical trials). This credit is computed on qualifying investments made on or before 31 December 2018. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Employment tax credit for investing in the workforce

A tax credit of up to 3% is available to companies that do not decrease their workforce and an additional 3% to 6% tax credit is available for investments that create new jobs. This tax credit has two tiers:

- Basic tax credit:
  - The basic tax credit is not available to large companies;
  - Medium-sized companies can qualify for the basic credit only if the investment results in an increase in net employment;
  - The basic tax credit is available to SMEs; however, if the number of employees decreased from the prior year, the credit is reduced by KRW 10M, multiplied by the number of employees by which the workforce decreased.
  - The amount of the credit depends on various other factors, but can be as high as 3% of qualifying investments that result in increasing or maintaining the current level of the workforce.
- Additional tax credit:
  - The additional credit rate ranges from 3% to 6%, depending on the company's size and location.
  - The additional tax credit for employment creation cannot exceed KRW 10M (KRW 15M for employees between the ages of 15 and 29/disabled persons/employees over age 60, KRW 20M for certain specified occupational high school graduate employees), multiplied by the amount of the net increase in employment.

Investments for maintaining or increasing the workforce must be made on or before 31 December 2017. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.



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Government incentives (continued)

Employment tax credit for creation of employment for young persons

The TILL provides tax credits to encourage the hiring of young people, i.e., those between 15 and 29 years of age. The credit, computed on the net increase of young employees, is KRW 5M, multiplied by the increased number of young employees for SMEs and medium-sized companies and KRW 2M, multiplied by the increased number of young employees for a large companies. The tax credit is available for fiscal years that include 31 December 2015 to fiscal years that include 31 December 2017. Taxpayers cannot claim both the credit under this provision and the employment tax credit for investing in the workforce for the same increase in employment expense.

It should be noted that a proposal is being drafted that would combine the Employment tax credit for investing in the workforce and the Employment tax credit for creation of employment for young persons. Under the proposal, the tax credit for investment that creates jobs will be permitted even if there is no corporate investment. In this case, however, the amount of the tax credit would not be able to exceed the following limits:

Types	Full-time employees	Regular youth employees, handicapped employees
SMEs	KRW 7M per employee per year	KRW 10M per employee per year
Medium-sized companies	KRW 5M per employee per year	KRW 7M per employee per year
Large companies	N/A	KRW 3M per employee per year

A company could receive a benefit from this tax credit for two years if it maintained the employment (one year for large companies). The credit would be available until 31 December 2020.

Environmental sustainability

Tax credit for investing in facilities for energy-saving

The TILL provides an investment tax credit (1% for large companies, 3% for medium-sized companies, and 6% for SMEs) for the purchase of new qualifying facilities or equipment to achieve energy savings. The credit applies to qualifying investments made on or before 31 December 2018. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

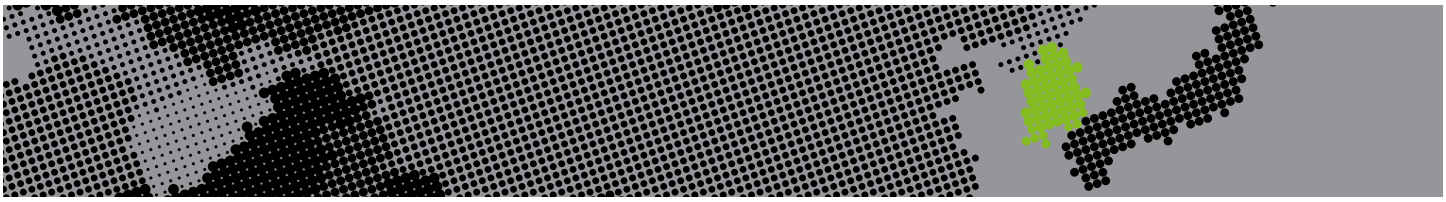
Tax credit for investing in facilities for environmental protection

The TILL provides an investment tax credit (1% for large companies, 3% for medium-sized companies, and 10% for SMEs) for the purchase of new qualified facilities or equipment for environmental protection, such as air pollution prevention facilities, waste water reprocessing facilities, soil pollution prevention facilities, etc. This tax credit is computed on qualifying investments made on or before 31 December 2018. If the tax credit cannot be utilized in the current period, it may be carried forward to the following five years.

Other

Tax incentive for foreign-invested companies

Foreign-invested companies that engage in certain qualified high-technology businesses can apply for a five-year exemption from corporate income tax, individual income tax, acquisition tax, and property tax. The exemption begins from the first year of profitable operations (and from the fifth year, if not there are no profits until that time). The full exemption is followed by a two-year 50% exemption in proportion to the foreign shareholding ratio. The tax exemption is based on the total tax base if certain requirements are met, e.g., if the income from the business using new growth engine technologies accounts for 80% or more of the total tax base. However, there is a limit for the tax exemption that varies depending on the types of tax holidays (e.g., 80% to 100% of capital injection amounts made by a foreign investor). The scope of businesses eligible for foreign investment tax incentives currently applies only to new growth engine industries.



Spain

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Refundable volume-based tax credit	In some instances, the tax benefit can exceed 25% of qualifying expenses	In some instances, the tax benefit can exceed 25% of qualifying expenses
R&D grant (national)	Yes	Yes	Yes	Advance	Cash grant to support the creation of new products, processes, and services	Up to 25% of qualifying expenditures	Up to 40% of qualifying expenditures
R&D grant (EU)	Yes	Yes	Yes	Advance	Cash grant to support the creation of new products, processes, and services	Up to 100% of qualifying expenditures	Up to 100% of qualifying expenditures
Patent box	Yes	No	No	Advance	Tax deduction applied on the corporate income tax base	Deduction of 60% of net qualifying income	Deduction of 60% of net qualifying income
Investment							
CAPEX	Yes	Yes	Yes	Advance	Cash grants to support CAPEX investment	Up to 15% of eligible costs	Up to 40% of eligible costs
Training	Yes	Yes	Yes	Advance	Direct reductions in social security contributions	N/A	N/A
Environmental sustainability							
Environment	Yes	Yes	Yes	Advance	Cash grants to support wide range of sectors (transport, renovation of building, energy, etc.)	Up to 15% of eligible costs	Up to 30% of eligible costs

Key: Yes, Limited availability, No, N/A

Notes:

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2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

Spain

Spain offers a patent box and a variety of expenditure-based tax incentives, but limits utilization

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R&D tax incentives

Background

The standard corporate income tax rate in Spain is 25%, but different rates apply to specific industries: oil companies (33%), savings banks (30%), real estate investment trusts (REITs) (19%), and investment funds (1%). Spain offers an immediate tax deduction for qualifying R&D expenditure, as well as research tax credits for technological innovation.

Nature of incentives

The following are the general rules for the R&D and technological innovation tax credits:

Volume-based credit

The volume-based credit is equal to 25% of the R&D expenses incurred in the tax year.

Incremental credit

The incremental credit equals 42% of the amount by which the current year expenditure exceeds the average of such expenditure incurred in the preceding two tax years. The incremental credit is available in addition to the volume-based credit, so if the taxpayer's current year spend exceeds the average of the prior two years, the taxpayer will receive a credit equal to 25% of the total current expenses, plus 42% of the excess over the average of the prior two years.

Personnel credit

A 17% credit is granted for wages paid to qualifying researchers dedicated exclusively to R&D.

R&D equipment credit

An 8% credit is granted for amounts invested in tangible and intangible fixed assets (excluding real estate) used exclusively in the conduct of qualifying R&D.

Technological innovation

Expenses incurred for research activities that result in technological innovation for existing products receive a 12% credit. However, there is a maximum allowance of EUR 1M for expenses relating to the acquisition of know-how, licenses, and patents.

Credit limitations

If the amount of qualifying R&D expenses for the tax year exceeds 10% of the tax due (after reducing the deductions to prevent international double taxation and bonuses from other incentives), the tax credits may not be used to offset more than 50% of the gross tax due. If the amount of R&D expenses does not exceed 10% of the tax due (after reducing the deductions to avoid international double taxation and bonuses), the credits may offset up to 25% of the gross tax due.

Unused credits may be carried forward for 18 years and the Spanish tax authorities will have 10 years to review tax credits that have been accredited but not utilized. To obtain legal certainty, a taxpayer can apply to the Spanish tax authorities to validate the qualification of a research project.

Special rules enable taxpayers to qualify for refunds for unutilized credits. The regime allows taxpayers to elect to reduce the credits they otherwise could utilize by 20% and then be subject to the following annual credit limitations:

- EUR 1M if the credit was attributable to technological innovation-related expenses;
- EUR 3M for the amount of R&D and technological innovation-related expenses; or
- EUR 5M for the amount of R&D and technological innovation-related expenses for companies with R&D expenditure exceeding 10% of net revenue.

Special rules that enable refunds of unutilized credits apply to taxpayers that meet the following requirements:

- At least one year must pass from the end of the tax year in which the tax credit was generated but not utilized;
- The average number of staff, or the average number of staff involved in R&D and technological innovation, must be maintained from the end of the tax period in which the tax credit is generated until 24 months after the end of the period in which the corporate income tax return with the application or payment is filed;

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R&D tax incentives (continued)

- An amount equivalent to the tax credit applied or paid (i.e., "cash refund") must be invested in R&D and technological innovation for the same period mentioned in the previous bullet; and
- The company must obtain a pre-validation report that the activity qualifies as R&D and technological innovation or have a previous valuation agreement on the expenses and investment in these activities.

Eligible industries and qualifying costs

All industries are eligible for R&D tax credits for costs incurred in qualifying activities.

R&D activities include original planned investigation aimed at acquiring new knowledge and greater understanding in scientific or technological fields. Development is considered to be the application of the results of research or of any other kind of scientific knowledge for the manufacture of new materials or products or for the design of new production processes or methods, as well as for substantial technological improvement of materials, products, processes, or previously existing methods (including software development).

Qualifying R&D expenses include wages paid to employees engaging in research and the cost of investments in fixed assets that are dedicated exclusively to R&D activities. Indirect expenses are excluded.

For tax years before 2015, software development did not qualify for research tax credits unless it involved a significant scientific and technological advancement. The definition of qualifying R&D now includes advanced software activities without additional limitations. Advanced software development activities generally are limited to developments that are innovative (e.g., pilot projects related to animations developed for video games).

IP and jurisdictional restrictions

To qualify for any credit, all qualifying R&D must take place in Spain or an EU/EEA member state. IP ownership does not affect whether the taxpayer can claim the credit.

Patent box

The patent box excludes from taxable income 60% of net qualifying income from licensing or the transfer of certain intangible assets (i.e., patents, drawings, models, and know-how).

The patent box regime has been amended to bring the rules in line with the "nexus approach" endorsed in the OECD BEPS final report on action 5. Under the revised rule, a ratio is applied to determine qualifying income that may limit or eliminate the benefits available under the patent box in situations where the taxpayer has not created the relevant intangible asset, as described below.

The ratio results from the lower of "1" or the application of the following formula:

- 130% of expenses (other than financing expenses and depreciation of buildings) incurred by the taxpayer that are directly connected to the creation or development of the relevant intangible asset, including expenses incurred as a result of outsourcing to unrelated third parties;

  Divided by,

- 100% of expenses (other than financing expenses and depreciation of buildings) incurred by the taxpayer that are directly connected to the creation or development of the relevant intangible asset, including expenses incurred as a result of outsourcing and expenses incurred for the acquisition of the intangible asset.

Notwithstanding the above, a transitional elective regime is available as follows:

- If the intangible asset was licensed before 29 September 2013, the taxpayer will be able to elect to apply the rules that applied before that date, providing a reduction of 50% of the gross qualifying income as long as it does not exceed six times the cost of the intangible asset; or
- If the intangible asset was licensed on or after 29 September 2013 but before 1 July 2016, or if the asset is transferred before 30 June 2021, the taxpayer may elect to apply the rules in effect before 1 July 2016, rather than the new rules. Under the pre-1 July 2016 rules, the net qualifying income is reduced by 60% provided the intangible is created by the entity that has borne at least 25% of the costs.

An election to apply earlier rules will be applicable up to 30 June 2021; thereafter, the revised rules will apply, i.e., resulting in the limitations from the above-described ratio.

Spain

Spain incentivizes innovation, regional development, training and environmental sustainability

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Government incentives

Innovation

R&D grants

The central government and the 17 autonomous communities offer numerous research grants that typically are targeted at certain industries or outcomes and can cover up to 40% of qualifying project costs for SMEs (25% for large companies). Among the most noteworthy:

- **R&D CDTI:** A company or a consortium can present projects to create and significantly improve a production process, product, or service. The project can include both industrial research and experimental development activities. There are three categories: individual R&D projects, R&D projects in national cooperation, and international technological cooperation projects. International technological cooperation projects are multilateral/bilateral projects to allow Spanish companies to reinforce their technological capacities, while also extending the impact of their products, processes, and services in global markets.
- **ENISA:** ENISA is Spain´s leading government agency for the development of innovation-based and high growth potential companies and Spain's most active public fund that backs entrepreneurial spirit. This program aims to fund projects with viable and profitable business models.
- **Strategic Action Digital Economy and Society:** ICT projects can be presented by a single company or by a consortium. Many types of projects are eligible, including: future internet, cloud computing, massive data processing, apps for mobile ecosystem, smart cities, cybersecurity and digital confidence, ICT applications, and solutions aimed at improving the competitiveness of SMEs, the evolution of e-government, health and social welfare applications, and environmental management applications and solutions related to digital content.

Investment

CAPEX

This incentive impacts investment projects designed to acquire and/or upgrade assets to establish or to expand the productive capacity of a business.

- **Regional incentives:** These promote productive investment geared towards promoting business activity. The object of these subsidies is to offset imbalances between Spanish territories. Promotional projects are those that create new establishments, extend an activity that already has been established or start up a new one, as well as projects designed to modernize installations. Buildings, machinery, and fixed equipment can be part of the base that can be subsidized.
- **Re-industrialization aids:** This incentive targets investment for new industrial plants, as well as for increasing manufacturing production capacity or relocations to gain competitiveness. The purchase of fixed assets is subsidized, as are civil works and the acquisition of devices and material equipment directly linked with the production. Grants of up to 40% of eligible costs can be awarded for SMEs (15% for large companies).

Training

The Tripartite Foundation offers incentives that include direct reductions in social security contributions for qualifying training programs. Priority is given to applicants that are SMEs, women, the disabled, persons aged 45 and over, and workers with low skill levels.

Environmental sustainability

Environment

In the 2014–2020 National Energy Efficiency Plan, the government has presented a wide range of cost-saving and energy efficiency measures in all sectors to fulfill the 2020 objectives. The incentives include the following:

- Incentive for the Energy Renovation of Existing Buildings Assistance Program (PAREER) in the housing and hotel residential sector (allocated EUR 125M);
- Incentives for the environmental support plan for the purchase of commercial vehicles (allocated EUR 38M);
- Incentives for the energy renovation of hotel facilities (PIMA SOL); and
- Incentives for promoting the rental of housing, building renovation, and urban regeneration

Grants typically are up to 30% of eligible costs for SMEs (15% for large companies).

Sweden

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Social security charges reduction for R&D employees	Maximum of SEK 230K /month	Maximum of SEK 230K/month
R&D grant (national)	Yes	Yes	Yes	Varies	Varies	Varies	Varies
R&D grant (EU)	Yes	Yes	Yes	Varies	Varies	Varies	Varies
Patent box	No	No	Yes	N/A	N/A	N/A	N/A
Investment							
Employment—Expert tax relief	Yes	No	Yes	Arrears	Reduction in taxable income and social security charges for experts	A maximum of 25% of the compensation paid to qualifying experts is exempt from income tax and social security charges	A maximum of 25% of the compensation paid to qualifying experts is exempt from income tax and social security charges

Key: =Yes =Limited availability =No =N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
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Sweden

R&D and innovation incentives in Sweden include reduced social security charges

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R&D tax incentives

Background

The general corporate tax rate in Sweden is 22%. In addition, social security charges of 31.42% of taxable compensation (no cap) account for a significant part of a company's compensation costs.

Nature of incentives

Reduced social security charges for R&D employees

Social security charges paid for R&D employees can be reduced by 10% of the compensation paid, with certain caps. For example, if an employee receives a salary of SEK 50K per month, the social security charges normally would amount to SEK 15,710 (31.42% x SEK 50K). From the charges, a deduction of 10% of the salary is made (SEK 5K), so that the total social security charges would be reduced to SEK 10,710.

The total social security charges reduction cannot exceed SEK 230K per month for a group of affiliated companies.

Eligible industries and qualifying costs

The following requirements must be met to qualify for the reduced social security charges:

- The employee must dedicate at least 75% of his/her actual working time to qualified research or development projects.
- Qualifying projects must be undertaken with a systematic approach for a "commercial purpose." The commercial purpose requirement is met if the results of the research are applied to develop new goods, services, or production processes (or to improve the same). As a result, an employee will not qualify if he/she works more than 25% of the time on a government project.
- Eligible employees must work at least 15 hours per month, and be at least 26 years of age, but under 65 at the beginning of the relevant calendar year.

IP and jurisdictional restrictions

The reduction applies to both Swedish and foreign companies that pay social security charges in Sweden. The IP developed through the research need not be retained in Sweden to qualify for this incentive.

Other concerns

In the event of an audit of the reduced social security charges, The Swedish Tax Agency will request supporting documentation such as the following:

- Documentation establishing that the research was undertaken through a systematic process to develop new or significantly improved goods or services; and
- Documentation establishing that the employees in question have been working on qualified research or development projects for at least 75% of their working hours. Hence, there must be time reports for each employee that validates their total amount of working hours and the hours spent on qualifying R&D projects.

Sweden

Sweden offers a unique incentive to help recruit foreign experts for companies that otherwise are unable to recruit qualified candidates in the country

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Government incentives

Innovation

R&D grant (national)
Various grants and other incentives are awarded by governmental agencies, such as the Swedish Research Council and the Swedish Agency for Innovation Systems (Vinnova). The incentives available vary per programs and calls.

R&D grant (EU)
EU-funded R&D grants are available to Swedish companies. The types of incentives vary per program.

Investment

Employment—Expert tax relief
25% of the compensation paid to qualifying employees is exempt from taxation and social security charges for the first three years.

The following requirements must be met to qualify for the exemption:

Residence requirements: Qualifying employees cannot be Swedish citizens and the employee must not have resided in Sweden in any of the five calendar years preceding the year in which the assignment commences. The employee must intend to stay in Sweden for no longer than five years.

Expertise requirements: Qualifying employees must be experts, scientists, or play a key role in the company. This scheme is intended to apply in the following cases:

- The employee will work on a qualifying research or development assignment at a position or competence level that would be difficult to recruit within Sweden.
- The employee will be part of the executive management team or perform other critical functions within the company.
- The employee will have an assignment appropriate for an expert in the relevant field of endeavor at a position or competence level that would be difficult to recruit within Sweden.

In addition, an individual will automatically qualify as an expert, scientist, or key person if he/she receives monthly gross remuneration at a minimum level equal to twice the standard base amount for that year (SEK 89,600 for 2017). Note that one-time payments, such as bonuses, are not included when calculating the monthly remuneration.

The employer must be a Swedish company or a foreign company with a permanent establishment in Sweden.

The expert tax relief is not limited to a specific industry and can be applied to all compensation paid to the individual.

The employer or the employee can apply to the incentive; there is no requirement for both to apply.

The following documentation must be submitted by the applicant when applying for the incentive:

- For individuals who qualify based on their remuneration level, a copy of the assignment letter or employment agreement;
- For the other categories, the applicant must provide the relevant authorities with supporting documents to prove that the employee qualifies. Such documents can include a job description, resume, diploma, etc.

Switzerland

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	●	● [4]	●	N/A	N/A	N/A	N/A
Federal funding of certain R&D projects	● [5]	●	●	Advance	Grant	50% of qualified costs	50% of qualified costs
R&D grant (EU)	●	●	●	N/A	N/A	N/A	N/A
Patent box	●	● [6]	●	N/A	N/A	N/A	N/A
Investment							
Tax holiday	●	●	●	Advance	Tax holiday for up to 10 years	Federal level: CHF 95K per year for a newly created job up to a maximum of 100% federal tax for 10 years Cantonal level: Varies, with a maximum of 100% cantonal and communal tax exemption over 10 years	Federal level: CHF 95K per year for a newly created job up to a maximum of 100% federal tax for 10 years Cantonal level: Varies, with a maximum of 100% cantonal and communal tax exemption over 10 years
Environmental sustainability							
Energy saving investments	●	●	●	Advance	Support contributions	Varies	Varies

Key: ● =Yes ● =Limited availability ● =No ● =N/A

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4. R&D-super-deduction proposed in Swiss tax reform proposal (to enter into force as early as 1 January 2020 or 2021).
5. Limited to specific science-based innovation in collaboration with a research institute.
6. Patent box proposed in Swiss tax reform proposal (to enter into force as early as 1 January 2020 or 2021).

Switzerland

While there are no current incentives for R&D, this is expected to change in light of recent tax reform proposals

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R&D tax incentives

Background

The federal corporate income tax in Switzerland is 8.5%, although income and capital taxes are deductible in determining taxable income, thus giving rise to a 7.8% effective rate on profits before tax. In addition, each of the Swiss cantons has its own tax laws and levies cantonal and communal income taxes at different rates. The maximum corporate income tax rate on profits before tax for federal, cantonal, and communal taxes currently is between 11.5% and 24.2%, depending on where the company is resident in the country.

The government intends to implement a broad-based tax reform that will abolish special corporate tax regimes, mainly at the cantonal level, such as the mixed, domiciliary, holding, and principal company regimes, and the Swiss finance branch regime, and replace them with other benefits, including an R&D super deduction and a patent box regime. The parliament may vote on the reform proposals sometime in 2018, with the new rules becoming effective as early as 1 January 2020 or 1 January 2021.

Nature of incentives

Proposed R&D super deduction

The proposed tax reform includes the introduction of a R&D super deduction of up to 150% of qualifying R&D expenditure that could be granted at the discretion of the individual cantons. The R&D super deduction primarily would include salary expenses and amounts paid to Swiss subcontractors. Subcontract costs would be limited, however, to 80% of the amount paid to subcontractors.

The super deduction would not be limited to particular industries, but it would be applicable only to R&D performed in Switzerland.

Patent box proposal

The tax reform proposal also includes the introduction of a mandatory cantonal-level patent box regime for profits earned from patented inventions and certain other innovations.

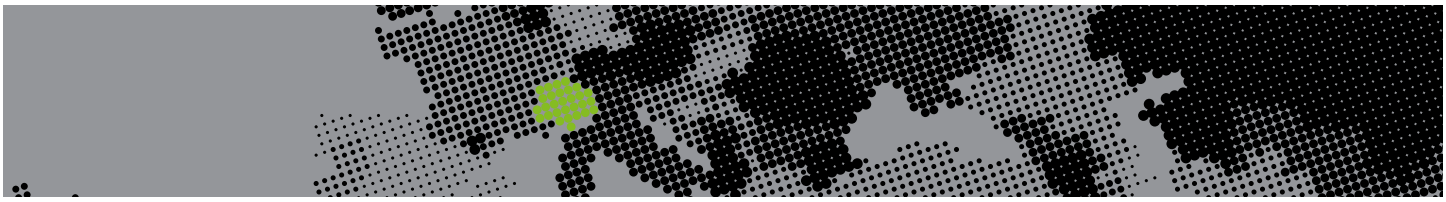
The patent box would provide tax relief of up to a maximum of 90% on income arising from qualifying patents or similar rights. To benefit from the regime, the company would have to economically own the patent and have made a significant contribution to the development of the invention on which the patent was granted. The regime would be based on the OECD modified nexus approach, with the modified nexus ratio calculated as the ratio of Swiss R&D expenses and R&D expenses contracted to third parties multiplied by 130% (30% uplift), divided by the overall global R&D expenses, including IP acquisition costs. The qualifying income multiplied by the modified nexus ratio would result in the income qualifying for the 90% tax relief.

The proposed regime would require claimant companies to track their R&D expenses and how they relate to specific patents, which may include costs incurred before the patent box comes into effect.

The maximum tax relief of all tax measures included under tax reform proposal would be limited to 70% of income before applying incentive.

Patent box (Canton of Nidwalden)

The Canton of Nidwalden currently offers an incentive for R&D activities in the form of an IP box, which allows an 80% reduction of the cantonal tax rate for net income from the exploitation of IP. To qualify for the IP box, an entity must apply to the cantonal tax authorities and may not use the IP rights itself. The extent of the net income qualifying for the reduction was reduced as from 1 January 2016 to align the regime with the OECD's recommendations under the BEPS project and the proposed Swiss tax reform. The qualifying net income amount now is computed by applying the proportion of R&D expenses carried on by the entity to the patent income.



Switzerland

Switzerland offers various incentives for innovation, investment, and environmental sustainability

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Government incentives

Innovation

Federal funding of certain R&D projects

Federal funding is limited to Swiss-headquartered companies that focus on science-based innovation, collaborate with a research institution, and provide a significant part of the added value in Switzerland. Government support is provided in the form of free access to the expertise of specialist researchers and research facilities available at higher education institutions and financial support of up to 50% of the total innovation project costs. The federal funding generally targets small and medium-sized enterprises (SMEs, i.e., broadly, businesses without a long operating history and that have fewer than 250 employees). The candidates typically have an idea for a product, but limited access to funding. Companies must apply for such federal funding and their applications may be selected by the government for review.

Investment

Employment—Tax holiday

Industrial companies and production-related service providers (both new and existing companies) that are in designated economic development areas and that create new jobs through a new venture or preserve existing jobs through a substantial realignment of their existing business may qualify for federal corporate income tax relief in the form of tax credits, for a period of up to 10 years.

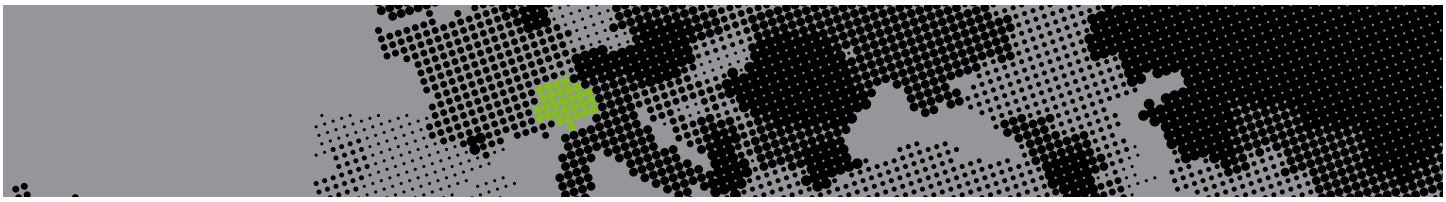
Industrial companies include both manufacturing companies and IT service providers. At the cantonal level, tax holidays may be granted at the discretion of the individual canton.

The federal and cantonal tax holidays should not be affected by the proposed tax reform.

Environmental sustainability

Energy saving investments

Individual cantons offer support contributions for investments targeted at energy savings. The support contributions differ from canton to canton and claims are reviewed on a case-by-case basis.



Turkey

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	No	Arrears	Tax deduction	150% incremental super deduction, exemption from withholding tax, 50% social security contribution and exemptions from stamp taxes, additional 5-year depreciation of total qualifying research expenses	150% incremental super deduction, exemption from withholding tax, 50% social security contribution and exemptions from stamp taxes, additional 5-year depreciation of total QRE
R&D grant (national)	Yes	No	No	Arrears	Cash grant	Up to 60% of qualified expenditure	Up to 60% of qualified expenditure
R&D grant (EU)	Yes	No	No	Arrears	Grants	100% funding for R&D projects and 70% for innovation projects	100% funding for R&D projects and 70% for innovation projects
Patent box	Yes	No	No	Arrears	Tax deduction	50% of certain revenue streams are exempt from corporate Income tax	50% of certain revenue streams are exempt from corporate income tax
Investment							
CAPEX	Yes	No	No	Arrears	Varies	Varies	Varies
Employment	Yes	No	No	Arrears	Tax exemption from income tax	100% exemption (TDZ—Free Zones)	100% exemption (TDZ—Free Zones)
Technology zones	No	Yes	Yes	Arrears	100% tax exemption and social security contributions	100% exemption from profits tax, employee income tax, and VAT, and the government compensates the employer for social security contributions	100% exemption from profits tax, employee income tax, and VAT, and the government compensates the employer for social security contributions

Key: Yes =Limited availability No =N/A

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Turkey

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
Free zones—manufacturers	No	Yes	Yes	Arrears	Tax exemption	100% exemption from profits tax, employee income tax, and stamp duty	100% exemption from profits tax, employee income tax and stamp duty
Export incentives	Yes	No	Yes	Arrears	Grants	50% of the expense related to trade fair promotional activities, etc.	50% of expense related to trade fair promotional activities, etc.
Employment Campaign for 1 February 2017–31 December 2017	Yes	No	No	Arrears	Income tax and social security premium compensation	TRY 773 per employee/month	TRY 773 per employee/month
Environmental sustainability							
Environmental incentives	Yes	No	Yes	Arrears	Grants	30% of expenses incurred in qualified projects	30% of expenses incurred in qualified projects
Renewable energy incentives	Yes	No	Yes	Arrears	Grants	Varies	Varies
Other							
SME support	Yes	No	No	Arrears	Grants/ Loans	90% of start-up expenses and interest-free loans, etc.	90% of start-up expenses and interest-free loans, etc.
Agriculture and livestock incentives	Yes	No	No	Arrears	Grants	Varies	Varies
Cultural incentives	Yes	No	No	Arrears	Payroll tax benefits	Varies	Varies

Key: =Yes =Limited availability =No =N/A

Turkey

Turkey offers a patent box regime, incremental super deductions, and exemptions from employment taxes, as well as government-funded contributions to social security and grants

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R&D tax incentives

Background

The general corporate tax rate in Turkey is 20%.

Nature of incentives

Turkey offers several incentives related to R&D:

- A 100% deduction is allowed for eligible costs incurred in qualifying R&D and design projects. Qualifying R&D projects include activities undertaken to achieve technological innovation. Design projects were added to the scope of R&D incentives on 1 March 2016. Design activities include all activities that are intended "to create added-value and competitive advantage and increase, improve, enhance, and differentiate the functionality of products."

  An additional five-year depreciation deduction is granted for successful research, under which the total qualified research expenses (QRE) of successful R&D projects may be capitalized and depreciated over five years even though eligible R&D expenses already have been expensed. As a result, the depreciation deductions are an additional benefit for successful research.

- A super deduction is granted for incremental increases in qualified research expenses. If the qualifying expenses (R&D and design costs) are greater than the prior year, an additional 50% deduction of the R&D expenditure increase over the prior year will be allowed. The super deduction will be available if the R&D or design center has at least a 20% increase over the previous year with respect to any of the following:
  - Portion of R&D and design expenditure within total turnover;
  - Number of registered national or international patents;
  - Number of internationally supported projects;
  - Ratio of post-graduate degree researchers to total R&D personnel;
  - Ratio of all researchers to total R&D personnel; or
  - Ratio of the turnover obtained from new products emerging from an R&D project to total turnover.

- A reduction in income tax withholding on wages is granted for employees that conduct or support R&D and design activities. Income tax exemption rates are: (i) 95% for personnel with a Ph.D. or a master degree in fundamental sciences; (ii) 90% for personnel with a master degree or an undergraduate degree (the latter must be in fundamental sciences); and (iii) 80% for all other personnel. The government will compensate 50% of the employer's share of social security premiums until 31 December 2023.

- An exemption from stamp duty is granted for all documents prepared for R&D and design activities. Goods imported from abroad that are within the scope of R&D projects are exempt from customs duty and mandatory contributions to importation funds (including the Resource Utilization Support Fund). Additionally, documents that are issued and procedures performed with respect to these goods imported from abroad are exempt from stamp duty and fees.

- Grants received from government entities, voluntary trusts, and international funds in support of R&D activities are not subject to income tax; instead, they are recorded in a special funds account that is an equity account.

- The Ministry of Science, Industry and Technology will compensate R&D and design centers for employee wages up to the portion corresponding to the monthly gross amount of minimum wage for their first two years provided the employees hold at least an undergraduate degree in fundamental sciences and they conduct qualifying research activities.

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R&D tax incentives (continued)

Eligible industries and qualifying costs

R&D tax incentives are available to all industries. Qualification is based solely on the nature of the activities conducted within Turkey. Activities undertaken to achieve technological innovation qualify for the R&D incentives. Software activities are limited to new and original concepts. Personnel who perform design work and support R&D activities may qualify for R&D incentives as specified above.

R&D expenditure must be incurred within Turkey, and qualifying expenditure includes direct costs for materials, labor (salaries and wages), outsourced services, and duties, taxes, and levies on R&D-related activities (such as real estate tax on R&D land, or customs duty on imported R&D-related materials, etc.). Depreciation related to equipment and other assets used in research may qualify. Depreciation of machinery and equipment that is used solely in R&D or design activities is an eligible cost; if the machinery and equipment are used in both R&D/design and non-R&D/design activities, the eligible depreciation is proportionate to the number of days the equipment is used in R&D/design. Indirect costs incurred in the conduct of qualified research (e.g., public utility services, transportation expenses, communication expenses, maintenance and repair expenses, insurance expenses, etc.) are qualified research expenses. G&A expenses are excluded.

IP and jurisdictional restrictions

Tax incentives for R&D are available even if the research is unsuccessful, i.e., if it does not result in IP. However, if IP results from qualifying R&D, it is not necessary for the Turkish company to own the IP.

Other concerns

R&D deductions may be carried forward indefinitely, but the amounts are limited under a complex formula set forth in the Tax Procedure Law.

R&D activities must be certified by a sworn fiscal consultant, and a taxpayer that benefits from R&D deductions must provide a fiscal consultant report to its local tax office certifying that its R&D deductions are computed and applied correctly.

Patent box

Income from inventions and software development attributable to R&D performed in Turkey by corporate taxpayers is reduced by 50%. This includes income from leasing, transferring, or selling the invention or software, as well as income attributable to the sale of products that are mass produced in Turkey by using the technology developed through application of the invention. Qualifying income from leasing, transferring, and selling intangible rights arising from the R&D activity also qualify for a 100% exemption from VAT.

Taxpayers can benefit from both the industrial property rights exemption and the R&D exemption, but it is not possible to benefit from the technology development zone (TDZ) exemption and industrial property rights exemption (patent box regime) in the same period.

Turkey

Turkey offers generous incentives for Technology Zones, including exemptions from income tax for employees

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Government incentives

Innovation

National R&D grant programs

The Scientific and Technological Research Council of Turkey (TUBITAK) provides grants for R&D-related project expenses (e.g., raw material expenses, supplies expenses, R&D related personnel expenses, some special machine and equipment costs, and general expenses). The grant can be awarded in amounts that cover up to 60% of the QRE. There are many R&D support programs and different implementation standards. Grants and interest-free loans are available from the Turkish Technology Development Foundation (TTGV) and other related institutions. Additional financial support for new technology adaptation, process development, quality improvement, and environmental modification projects (through university partnerships) are available through the Industrial Thesis (SANTEZ) program.

Other national grant programs

Turkey offers grants for new scientists in the form of technology-initiative capital of up to TRY 100K.

Investment

Investment incentive program

This program is intended to encourage investments in four schemes (General Investment Incentives Scheme, Regional Investment Incentives Scheme, Large-Scale Investment Investments Scheme, and Strategic Investment Incentives Scheme) by providing the following incentives:

- VAT exemption;
- Customs duty exemption;
- Tax deduction (reduced corporate income tax rate);
- Social security premium (SSP) support for employer's share;
- Income tax withholding support;
- SSP support (employee's share);
- Interest rate support;
- Land allocation; and
- VAT refund.

Revenue from projects qualifying for all of these programs, except the General Investment Incentives Scheme, are subject to reduced corporate tax rates that expire when the total benefit achieved from the reduced rate reaches the contribution amount.[1] The contribution amount is calculated based on the contribution rate predefined for each region and/or investment type.

To benefit from these measures, investors must obtain investment incentive certificates from the Ministry of Economy.

Technology zones

Special incentives for operating in TDZ

- Profits derived from software development, R&D, and design activities are exempt from income and corporate taxes until 31 December 2023.
- Deliveries of application software produced exclusively in TDZ and Thematic TDZ are exempt from VAT until 31 December 2023.
- Wages of researchers and software, R&D, and design personnel employed in the zone are exempt from personal income tax until 31 December 2023.

Capital support given by corporate or income taxpayers to companies operating in TDZ can be deducted from the corporate tax base, but the deduction cannot exceed 10% of corporate income and 20% of the company's total equity, up to an amount of TRY 500K. Companies can benefit from both incentives.

Manufacturing zones

The earnings of manufacturers that are attributable to the sales of the goods produced in free zones are exempt from income or corporate taxes. Moreover, the wages of workers employed by manufacturers that export at least 85% of the FOB value of the goods they produce in the free zones are exempt from income tax. The transactions and arranged documents related to the activities carried out in the zones by the manufacturers are exempt from stamp duties and fees. (Free zone companies that obtained operating licenses for activities after 6 February 2004, other than for production, do not qualify for income or corporate tax exemptions.).

1. The reduced corporate income tax rate is not available under the General Investment Incentives Scheme.

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Government incentives (continued)

Export incentives
The Ministry of Economy reimburses 50% of expenses related to trade fair promotional activities for trade fairs in Turkey. The ministry also supports international fair participation, market research and entry abroad, brand promotion activities abroad, and many other activities related to exports. The ministry offers reimbursement of 70% of the domestic training costs of enterprises related to EU and foreign trade.

Inward and outward processing regimes are available to enable exporters/importers to supply inputs at world market prices for the production of their exports/imports without being subject to customs duties (including VAT), as well as trade policy measures.

Employment Campaign for 1 February 2017–31 December 2017
The Turkish government will compensate the social security premiums and income withholding taxes for each new worker to be employed in addition to current employees until 31 December 2017 within the limit of minimum wage for 2017. This incentive is valid for all types of private sectors.

To benefit from this incentive, the company must meet these requirements;

- Employees hired as of 1 February 2017 must be registered to the Turkish Unemployment Agency.
- They must have been unemployed in the last three months.
- They must in addition to the number of employees listed in the monthly social security declaration for December 2016.
- Company's social security premium declarations must be declared and paid on time.
- The employer may not have any kind of unpaid penalties regarding social security obligations.

The cap for this incentive is TRY 773 (social security premium + income tax of minimum wage) per month.

Environmental sustainability

Renewable energy incentives
The government provides specific incentives for electricity production investments that are based on renewable energy sources. A variety of incentives are available, including a Feed-in-Tariff (FiT) scheme that applies for a 10-year period and lower license fees.

Environmental incentives
Companies can enter into a voluntary agreement with the General Directorate of Renewable Energy to commit to reduce energy consumption by 10% over three years. The General Directorate will fund 20% of the total energy expenses over the term of the agreement. The Ministry of Energy and Natural Resources offers grant opportunities that cover 30% of the expenses incurred in projects that prevent unnecessary energy consumption, energy waste, energy loss/leakage, or recycling of waste energy.

Other

SME support
SMEs can obtain interest-free loans from KOSGEB (SME Development Organization). Moreover, the KOSGEB supports SMEs with many different government programs. The KOSGEB may compensate between 60%–90% of start-up expenses, such as machinery and equipment expenses, and predetermined fixed investment costs.

Agriculture and livestock incentives
The Ministry of Food, Agriculture and Livestock offers many support programs, including field-based incentives and grants that vary according to the scope of the agricultural operation, e.g., the number of livestock or the size of the agricultural land. Cash grants and subventions may be given to agricultural enterprises for agricultural activity carried out with respect to specific agricultural products.

Cultural incentives
Enterprises investing in culture can obtain land allocation payroll tax benefits, i.e., an income withholding tax deduction and social security premium deduction. The scope of cultural incentives includes the construction, operation, or maintenance of cultural institutions, such as libraries, museums, concert halls, cinemas, or theatres.

Development agencies (Regional incentives)
Specific project expenses incurred on a project within the scope of an annual program offered by a regional agency may be compensated by the agency. Moreover, development agencies also may pay the interest for the relevant projects.

United Kingdom

Overview

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	No	Yes	Arrears	Cash tax credit available subject to conditions[4]	9.72% of qualified research expenses[5]	33.35% of qualified research expenses[5]
R&D grant (national)	Yes	Yes	Yes	Advance	Cash grant	50% of qualified costs	70% of qualified costs[7]
R&D grant (EU)	Yes	No	Yes	Advance	Cash grant	100% funding	100% funding
Patent box	Yes	No	Yes	Arrears	Tax rate reduction	Effective tax rate of 10%	Effective tax rate of 10%
Investment							
CAPEX	Yes	Yes	Yes	Advance	Cash grant or loan	25% of qualified costs	45% of qualified costs[7]
Employment	Yes	Yes	Yes	Advance	Cash grant or loan	25% of qualified costs	45% of qualified costs[7]
Training	Yes	Yes	Yes	Advance	Cash grant	50% of qualified costs	70% of qualified costs[7]
Annual investment allowance	Yes	No	Yes	Arrears	Tax deduction	Write off 100% of qualifying expenditure up to limit of GBP 200K[8]	Write off 100% of qualifying expenditure up to limit of GBP 200K[8]
Enterprise zones	No	Yes	Yes	Advanced/ Arrears	Business rates deduction/ tax deduction/ simplified local authority planning	Up to GBP 275K business rates discount over five years/100% first year tax deduction for plant and machinery expenditure[9]	Up to GBP 275K business rates discount over five years/100% first year tax deduction for plant and machinery expenditure[9]

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.
4. Both SMEs and larger companies (under the RDEC scheme) may qualify for a cash repayment.
5. The maximum benefit is based on the increased RDEC rate of 12% from 1 January 2018 and the 19% corporate tax rate.
6. SME definition for R&D tax: Must have fewer than 500 employees and meet one of the following: turnover not exceeding EUR 100M or balance sheet total not exceeding EUR 86M.
7. SME definition for grants: Must have fewer than 250 employees and meet one of the following: turnover not exceeding EUR 50M or balance sheet total not exceeding EUR 43M.
8. The AIA of GBP 200K is available for expenditure qualifying for plant and machinery allowances , it is not available to trusts or mixed partnerships and group or related companies under common control receive a single allowance.
9. Enhanced capital allowances cannot be claimed where other forms of regional aid such as financial assistance, business rates discounts etc. are being utilised. ECA's will therefore be more attractive to large scale projects where the benefit outweighs other forms of regional aid.

United Kingdom

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Environmental sustainability							
Intensive energy use (climate change agreements)	Yes	Yes	Yes	Arrears	Reduced energy bills	Approximately 3% reduction in energy bills	Approximately 3% reduction in energy bills
Renewable generation support (heat and biomethane)	Yes	Yes	Yes	Arrears	Cash grant from regulator	Varies according to technology	Varies according to technology
Small-scale renewable generation support (including solar, wind, hydro)	Yes	Yes	Yes	Arrears	Credit from capacity energy utility	Varies	Varies
Large-scale renewable generation support (renewables obligation)	Yes	Yes	Yes	Arrears	Tradeable certificates	Limited by type of generation technology and annual renewable obligation requirements	Limited by type of generation technology and annual renewable obligation requirements
Large-scale renewable generation support (renewable guarantees of origin)	Yes	Yes	Yes	Arrears	Tradeable certificates	Dependent on technology and markets	Dependent on technology and markets
Funding for environmental projects (landfill communities fund)	Yes	Yes	Yes	Arrears	Cash grant from charitable fund	Total fund limited by annual value of Landfill Tax receipts	Total fund limited by annual value of Landfill Tax receipts
Funding projects to reduce impact of extraction industry	Yes	Yes	Yes	Arrears	Cash grant from charitable fund	Total fund limited by annual value of Aggregates Levy receipts	Total fund limited by annual value of Aggregates Levy receipts
Enhanced capital allowances	Yes	No	Yes	Arrears	Tax deduction	100% first year tax deduction on specific Energy and Water saving technologies	100% first year tax deduction on specific Energy and Water saving technologies

Key: =Yes =Limited availability =No =N/A

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Overview

The UK government actively encourages private sector investment from both domestic and inward investing companies, offering a range of tax and cash-based incentives. The budget for R&D tax has continued to increase, recently reaching more than GBP 1.5B annually. Incentives available to encourage R&D, investment, employment, and training are largely awarded in the form of cash grants. However, before the EU referendum in which the UK voted to leave the EU, the government signaled an intention that an increasing proportion of incentives could be awarded in the form of repayable loans over the next four years.

Grant for investment in Scotland, Wales, and Northern Ireland are continually open for applications, whilst schemes in England are subject to periodic calls. Although there are ring-fenced packages of incentives available to support investment in the automotive and aerospace sectors, there currently is no major incentive available across England to encourage private sector investment.

Also, while earlier commitments to address climate change saw the introduction of environmental taxes with incentives and reliefs to encourage positive environmental practices, there has been an erosion of the scope of these reliefs. Many reliefs remain, but some have become more difficult to access.

The Brexit vote on 23 June 2016 to leave the EU was followed by the trigger of article 50 of the Treaty of European Union on 29 March 2017. This means that the UK is scheduled to leave the EU by 29 March 2019, ahead of the European Parliament elections in May of that year. Most incentive programs currently are subject to EU state aid rules but a break from the EU may mean that a different and more flexible range of incentives may be introduced. The Chancellor of the Exchequer has announced that the government will honor any existing or pending EU grants for funding beyond the UK's departure from the EU provided they meet UK sectoral priorities and value-for-money criteria.

The Chancellor also unveiled a package of support that includes GBP 220M for the life science and university sectors to help technology breakthroughs translate into commercial success. In the 2016 Autumn Statement, the Chancellor announced that there will be an additional GBP 4.7B investment over the next four years. There also will be a review of the R&D tax credit system, with a view to introducing improvements funded out of the additional GBP 4.7B.

United Kingdom

R&D and innovation incentives in the UK include super deductions, cash credits, and a patent box

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R&D tax incentives

Background

The UK headline corporate tax rate dropped to 19% with effect from 1 April 2017; the rate is expected to further reduce to 17% on 1 April 2020. R&D occurs when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainty. R&D also includes certain qualifying indirect activities undertaken as part of a project.

Nature of incentives

The UK offers volume-based super deductions and credits for qualifying revenue expenditure that vary depending on the size of the taxpayer: (i) a super deduction scheme is available for companies that fall within the definition of a SME; and (ii) all other companies (large companies) can claim an R&D expenditure credit (RDEC) (a super deduction until 31 March 2016).

A company is considered a SME if it has fewer than 500 employees and either gross revenue not exceeding EUR 100M or gross assets not exceeding EUR 86M.[1] Affiliated companies are taken into account in determining whether a company qualifies as a SME.

SMEs qualify for the following expenditure-based tax incentives:

- 230% super deduction (225% for revenue expenditure incurred before 1 April 2015); and
- Cash credits for SMEs in loss positions, up to 33.35% of qualifying expenditure (32.63% before 1 April 2015).

A cap restricts the amount of the tax benefit available to SMEs, over and above the benefit that would have been available had the company not been a SME, to EUR 7.5M per R&D project.

Large companies qualify for the following expenditure-based tax incentives:

- Until 31 March 2016, a 130% super deduction was available on qualifying revenue expenditure; and
- From 1 April 2016, the RDEC is the only regime available for large companies and, where an accounting period straddles 1 April 2016, only the RDEC can be claimed. The RDEC currently is 11% but will be increasing to 12% with effect from 1 January 2018. The RDEC is accounted for as an "above the line" "grant" or "other" income and, therefore, is taxable.

The RDEC regime is based on the same qualifying cost categories (see below) and is more generous than the super deduction. Companies without a corporation tax liability against which the RDEC can be offset can claim a cash credit. The cash credit, however, is capped at an amount equal to the payroll taxes and social security costs associated with the employees whose costs are included in the claim.

Unused RDEC benefits may be carried forward to utilize in future periods or may be surrendered to group companies with a UK corporation tax liability in the same accounting period.

For both the SME and RDEC regimes, the cash credit is available only if the most recent financial statements of the claimant company have been prepared on a going concern basis.

Claims for all forms of R&D relief must be made within 12 months of the filing deadline for the relevant tax return. In most cases, this will be two years from the end of the accounting period.

1. The criteria for qualification as a SME follows the EU recommendation, but allows for the criteria to be doubled.

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R&D tax incentives (continued)

The Autumn budget in November 2017 also heralded a pilot of an Advanced Clearance service for RDEC claims providing a pre-filing agreement for three years. A similar service is currently in operation for very small companies who have not previously filed claims.

Although companies that earn profits from oil extraction or oil rights in the UK or UK continental shelf are subject to a higher tax rate of 40%, such companies are able to claim a higher rate of the RDEC at 49%, resulting in a net after-tax benefit of 29.4%.

Capital expenditure is excluded from the volume-based incentives, but a full deduction for capital costs incurred for carrying out R&D, or providing facilities for carrying out R&D can be claimed in the year the expenditure is incurred, rather than being depreciated for tax purposes in accordance with the usual rules. While tax deductions generally are not available for capital expenditure on land and buildings, an immediate tax deduction can be claimed if the buildings are used for R&D purposes, providing an absolute tax benefit.

Eligible industries and qualifying costs

The type of industry has no bearing on the availability of the incentive. Qualification is based solely upon the nature of the activities.

Companies may claim the incentive for their expenditure on the following cost categories:

- Staff costs for employees who are directly and actively engaged in carrying out R&D.
- Contracted individuals working under the supervision, direction, or control of the company where their services are provided through a third-party staff provider. The costs are limited to 65% of the payments where the staff provider is unconnected and to the underlying staff costs where the staff provider is a connected entity.
- SMEs can claim 65% of R&D-related subcontracting costs. Large companies can claim up to 100% of subcontracting costs, but only if they are paid to a university, health authority, charity, scientific research organization, individual, or a firm each member of which is an individual.
- Large companies can include contributions made to independent R&D that is relevant to their business and is undertaken by a university, health authority, charity, scientific research organization, individual, or a firm each member of which is an individual.
- Software or consumable items used in the R&D process, although consumables may not be included in an R&D claim where they form part of a product that is sold or otherwise transferred in the ordinary course of business.
- Payments to volunteers for participating in clinical trials.

Expenditure on rent, land, patents, and patent protection are not included.

Large companies can claim the relief on costs associated with work that is contracted to them provided it was contracted by another large company or a person not subject to UK tax, e.g., a UK large company performs research for a US company that is not subject to UK tax.

SMEs cannot claim the more advantageous SME relief on costs that are subsidized or related to activities that were contracted to them, although they may be able to make a claim under the less generous large company schemes for the excluded expenditure.

IP and jurisdictional restrictions

There is no IP ownership requirement under the UK R&D schemes and it is not necessary for the employees or contract staff undertaking the work to be doing so within the UK.

Patent box

A patent box regime introduced for profits earned on or after 1 April 2013 from patented inventions and certain other innovations enables companies to apply a lower rate of corporation tax. The relief has been phased in and, from 1 April 2017, effectively applies a 10% rate of corporation tax to profits generated from qualifying patents.

The OECD's BEPS project has driven a change in preferential intangibles regimes, including the UK's patent box. These changes, which apply as from 1 July 2016, require a company to demonstrate a nexus between the profits falling within the patent box and the R&D activities that generated the underlying technology. Companies that had already elected into the patent box by 1 July 2016 may be eligible to be grandfathered until 30 June 2021.

The "new" regime requires claimant companies to track their R&D expenses and how they relate to specific patents, products, or product families, creating a much stronger link between the R&D tax relief and the patent box regime.

United Kingdom

UK has many incentives for environmental sustainability, as well as incentives for innovation, capital expansion, employment and training

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Government incentives

Innovation

R&D grant (EU)

There is an extensive program of calls provided by the EU. Some permit a company to apply directly, while many require collaboration between three or more partners (including the UK applicant) from three or more EU member states. EU schemes may offer a high level of assistance but projects need to be more research-oriented and the application process is longer than that for a national R&D grant.

R&D grant (national)

Assistance can be available in response to a specific call or based on a direct application. The assistance level will depend on the nature of the work packages and whether they qualify as industrial research or experimental development. If a SME also benefits from R&D tax incentives, the company must consider that the award of the grant may reduce otherwise qualified R&D expenditure, or, if the grant constitutes state aid, exclude the whole project from the SME R&D tax incentive regime.

Investment

CAPEX/employment

This scheme encourages investment by private sector companies in medium term (three to five-year) investment plans that involve capital expenditure and the creation of net new jobs and/or the safeguarding of jobs that otherwise may be lost. For service sector projects, the grant may be influenced by the salary costs of the net new jobs to be created. In all cases, a need for assistance must be demonstrated.

Training

Assistance can be available to support training for new recruits and/or upskilling of the existing workforce. Eligibility rules are defined by the EU and training must be incremental.

Annual Investment Allowances (AIA's)

The annual investment allowance is a government tax incentive to encourage businesses to invest in plant and machinery. Businesses can write off 100% of qualifying capital expenditure up to a set limit (currently GBP 200K) against taxable profits for the same period. Any qualifying expenditure over the limit is subject to the normal writing down allowances of 18% or 8%.

Enterprise Zones (EZ)

EZ are designated areas across England and Wales set up to incentivize business investment in these areas through business rates discounts, enhanced capital allowances and government support for businesses. Established in 2012, there are 48 EZ in place across England and eight in Wales.

Businesses that locate on an EZ can access a number of benefits: Up to 100% business rate discount worth up to GBP 275K per business over a five-year period. Simplified local authority planning within specified zones as well as high speed broadband rolled out throughout the zone. In eight of the EZ, accelerated tax relief through enhanced capital allowances is available, providing 100% relief in the year of expenditure for large investments in plant and machinery.

There are rules around the timing of the investment.

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Government incentives (continued)

Environmental sustainability

Intensive energy use

Where energy-intensive sectors demonstrate that energy is a substantial cost component of their products and that the imposition of carbon tax on energy costs will make the sector uncompetitive, the UK government can agree to significantly reduced rates of the tax in return for a commitment to reduce energy consumption. For electricity, there is a maximum tax reduction of 90% which, depending on the price being paid for electricity by the consumer, could lead to an approximate 3% reduction in electricity bills.

Renewable generation support

Innovative and environmentally friendly generation technologies may be eligible for support in the form of cash incentives from regulated energy utilities. In practice, this support usually is in the form of tariff payments made to the generator for each megawatt of qualifying renewable energy generated. A higher value tariff typically is paid for energy that is surplus to the generator's own needs.

Small scale renewable generation support

This incentive supports small scale renewable energy installations up to 5MW in size producing their own electricity. Generators are paid a tariff for the electricity units produced through qualifying generation assets (e.g., solar, wind, and hydro). The tariff varies depending on a number of factors and is paid from energy suppliers.

Large-scale renewable generation support (renewables obligation)

Several tradeable certificates are available to large-scale renewable generation assets, such as "renewable obligation certificates" (ROCs) and "renewable guarantees of origin." Traded commercially, the value of these certificates is subject to market forces. In the case of ROCs, an annual "true-up" of the scheme usually leads to additional cash payments to participating generators.

Resources taxes recycled into local communities (funding for environmental projects and funding projects to reduce the impact of the extraction industry)

Environmentally driven research and smaller provincial projects can be supported by "grants" funded from certain resource taxes (Landfill Tax, Aggregates Levy).

Enhanced Capital Allowances (ECAs)

ECAs provide a 100% tax deduction in the year of expenditure on assets that are either energy or water efficient and are included on either the government's "Energy Technology Product List" or "Water Technology Product List" or meet specific criteria as set-out by the "Energy Technology Criteria List."

It may be possible to surrender the allowances for a 19% tax credit where the company is in a loss-making position.

United States

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Innovation							
R&D tax	Yes	Limited availability	Yes	Arrears	Tax credit	Up to 9.1% of qualified research expenditure	Up to 9.1% of qualified research expenditure, but certain small businesses can offset AMT and payroll taxes
R&D grant (national)	Yes	Limited availability	Yes	Varies	Grant	Varies	Varies
R&D grant (EU)	No	No	N/A	N/A	N/A	N/A	N/A
Patent box	No	No	N/A	N/A	N/A	N/A	N/A
Investment							
CAPEX—Section 199 Domestic Production Deduction (DPD)	Yes	Limited availability	Yes	Arrears	Tax deduction	9% deduction on qualified production activities income	9% deduction on qualified production activities income
CAPEX—Low income housing	Yes	Limited availability	Yes	Arrears	Tax credit	4%–9% of investment, depending on other financing utilized	4%–9% of investment, depending on other financing utilized

Key: Yes, Limited availability, No, N/A

Notes:

1. Green means that most states/provinces or local governments offer the stated incentive. Yellow means that some states/provinces or local governments offer the stated incentive. Red means that there are no state/provincial or local incentives.
2. If the response is ***advance***, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is ***arrears***, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in ***arrears*** because they are reported on tax returns resulting in reduced tax liabilities. Only in the event that the tax position is examined by the tax authorities, within the statutory limitations period, is the tax incentive in jeopardy of being reduced or eliminated. Generally, the response to this question applies to both the federal incentive and state/provincial incentive, in the event that both are offered.
3. The maximum assistance, unless specified otherwise, is the maximum permanent benefit for the specified federal incentive. Please e-mail the "Contact" noted for this country to get an estimate the benefits from the relevant states or provinces, in the event that both federal and state/provincial incentives are offered. The maximum permanent benefit converts federal super deductions for qualified research expenditure to actual tax savings as a percentage of qualified expenditure. For example, a 200% super deduction in a country with a 20% tax rate would provide a permanent benefit of 20% of the qualified expenditure.

United States

Overview (continued)

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Type	National incentives	State, provincial, or local incentives[1]	Filing deadlines imposed	Claim in advance or arrears[2]	How the incentive is realized	Maximum assistance available to large enterprises[3]	Maximum assistance available to SMEs[3]
Investment (continued)							
CAPEX—Historical Rehabilitation	Yes	Limited availability	Yes	Arrears	Tax credit	10%–20% of investment, depending on building designation	10%–20% of investment, depending on building designation
CAPEX—New markets tax credit	Yes	Limited availability	Yes	Arrears	Tax credit and forgivable loan	35% tax credit/seven years for lender. Approximately 25% of borrower's capital in forgivable loan	35% tax credit/seven years for lender. Approximately 25% of borrower's capital in forgivable loan
Employment	Yes	Limited availability	Yes	Arrears	Tax credit	Up to USD 9,600 per employee	Up to USD 9,600 per employee
Training	No	Limited availability	Yes	Varies	Varies	Varies	Varies
Environmental sustainability							
Wind production tax credit	Yes	Limited availability	Yes	Arrears	Tax credit	2.3c per kw/hr produced; 10-year credit period, phase-out beginning in 2017	2.3c per kw/hr produced; 10-year credit period, phase-out beginning in 2017
Solar power investment tax credit	Yes	Limited availability	Yes	Arrears	Tax credit	Tax credit of 30% of eligible costs; phases down to 10% beginning in 2020	Tax credit of 30% of eligible cost; phases down to 10% beginning in 2020
Electric vehicle credit	Yes	Limited availability	Yes	Arrears	Tax credit	Up to USD 7,500 per vehicle subject to various requirements	Up to USD 7,500 per vehicle subject to various requirements

Key: =Yes =Limited availability =No =N/A

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Overview

As this survey goes to press, the U.S. House and Senate are beginning the process of reconciling competing tax reform bills that, on the business side, would lower the corporate tax rate to 20%, reduce the rate imposed on passthrough entities, move the U.S. toward a territorial-style system for taxing foreign-source income, and offset the cost of the tax relief provisions by limiting or eliminating a slew of current-law deductions, credits, and incentives. Congressional Republican leaders hope to reach an agreement on a final package that they can send to President Trump by Christmas.

Here is a quick overview of the current status of several key innovation and investment incentives. Bear in mind that provisions can be added or dropped during the negotiation process and that nothing is certain until a final conference agreement is approved by both chambers.

Incentives likely to be retained

- *Research credit*—Both the House and the Senate bills would retain the current-law R&D credit, although they also would modify the rules for R&D expenses, generally requiring amortization over five years if the research is conducted in the U.S., and 15 years if carried out abroad.
- *Low-income housing credit*—Both bills would retain the low-income housing credit, although the Senate bill proposes several modifications.
- *Alternative energy incentives*—The House bill generally would maintain the scheduled phase-downs of the IRC section 45 production credit and the section 48 solar investment tax credits but would eliminate certain inflation adjustments and impose new limitations on both. The Senate bill proposes no changes to current law.

Incentives likely to be repealed

- *Section 199 deduction*—Both bills propose to repeal the deduction for domestic manufacturing under section 199 on the grounds that the significant cut in the corporate tax rate renders the deduction unnecessary.

Incentives facing an uncertain future

The House and Senate bills are at odds over how to address certain other incentives and the fate of these provisions may not be known until conference negotiations conclude.

- *New Markets Tax Credit*—The House bill would repeal the credit; the Senate measure would retain current law.
- *Work Opportunity Credit*—The House bill would repeal the credit; the Senate measure would retain current law.
- *Rehabilitation credit*—The House bill would repeal the credit; the Senate would retain it, with modifications.

AMT issues raise potential complications

It is worth noting that the House bill would repeal the corporate alternative minimum tax (AMT)—a 20% levy on alternative minimum taxable income—while the Senate opted to retain the corporate AMT for revenue reasons. With corporate income and AMT rates both set at 20% in the Senate bill, AMT could become the default corporate rate for many companies, eliminating their ability to claim many credits, including the research credit. This is expected to be an issue that lawmakers will address during the conference process.

United States

Research tax incentives in the U.S. are not likely to be impacted by emerging tax reform

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R&D tax incentives

Background

U.S. federal corporate taxable income is subject to graduated tax rates, ranging from 15% to 35%. Most states also impose an income tax at rates ranging from 4.6% to 12%. The average combined federal/state corporate tax rate currently is 39.1%.

Nature of incentives

The U.S. offers a nonrefundable research tax credit that can be applied to reduce income taxes. There is a limited exception for qualified small businesses and start-ups to apply the research credit to reduce alternative minimum taxes and payroll taxes with tax year beginning after 31 December 2015.

Forty-five states offer a research tax credit that is similar to the federal tax credit, but generally at a lower credit rate. However, a few states offer refundable credits and some states offer sales and use tax refunds or exemptions for property purchased to be used in the R&D process.

The research tax credit is a credit computed on an increment of qualified research spending exceeding a base amount. Taxpayers can elect to report one of the following research tax credits:

Traditional research tax credit

The "traditional credit" is equal to 20% of the amount of the qualified research expenses (QREs) exceeding a "base amount." The base amount is computed by: (i) first determining the ratio of QREs to gross receipts for the period of 1984–1988. This ratio, called the "fixed base percentage," reflects the proportion of QREs to gross receipts that a company had during the 1984–1988 period.[1] The fixed base percentage then is multiplied by the average annual gross receipts of the taxpayer for the four years preceding the credit year. The product of this calculation is the base amount, i.e., reflecting the amount of QREs a company would expect to commit to qualified research. There is, however, a minimum base amount of 50% of the current year QREs, thereby limiting the incremental QREs to 50% of the determined amount. The base amount must be adjusted for acquisitions and dispositions, i.e., adjusting for the acquired/disposed companies QREs or gross receipts in the base amount calculation. This can be challenging considering that records dating back to the early 1980s often are not readily available. For this reason, and the complex base amount rules, few companies elect to report the traditional research credit.

Alternative Simplified Credit (ASC)

The ASC is equal to 14% of the excess of the QREs over 50% of the average of the previous three years' QREs. The ASC base amount, therefore, is easier to determine than under the traditional method and most taxpayers elect the ASC.

Targeted research credits

There are other research credits under U.S. law targeting specific types of research, including the following: (i) a 20% basic research credit (i.e., for funding research undertaken by universities and research organizations that have no commercial objective); (ii) a 20% credit for payments to energy research consortium; and (iii) a 50% research credit for clinical testing relating to orphan drugs (providing a credit equal to 50% of the amount spent on clinical research). These additional credits cannot be taken on the same QREs included for the regular research credit.

Computational adjustments

There are several computational adjustments that significantly reduce the true value of U.S. R&D tax credits.

While qualifying R&D expenses currently are deductible, taxpayers must reduce the current deduction by the amount of the tax credit (thereby reducing the net benefit of the traditional research tax credit

1. A special start-up company rule applies in determining the fixed base percentage if the company was not in existence during the 1984-1988 base period.

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R&D tax incentives (continued)

and the ASC to 13% and 9.1%, respectively). Alternatively, taxpayers may elect to forego the reduction to its current deduction and just report the traditional credit at 13% or the ASC at 9.1%. This election must be made annually on a timely filed original income tax return.

There is a minimum base amount applicable only to the traditional credit equal to 50% of the QRE. The cumulative effect of limiting deductions (or electing a reduced credit rate of 13%) and the minimum base amount is that the maximum value of the traditional credit is 6.5% of QREs.

Where there is no minimum base amount for the ASC, if there is no qualified research spending in any one of the previous three years, the credit is equal to 6% of qualified research spending in the current tax period.

The cumulative effect of limiting deductions (or electing a reduced credit rate of 9.1%) for the ASC and the base calculation rules is that the maximum value of the ASC is less than 9.1% of current qualified R&D spending. If qualified research spending is consistent year-over-year, the maximum value of the ASC is approximately 4.5% of qualified R&D spending.

The U.S. offers tax credits to offset current, prior, and future income tax liability. Unused research credits may be carried back one year and carried forward 20 years. While there is no cap on the amount of credits that can be utilized, certain general business credit limitations apply.

Small businesses and startups
For tax years beginning after 31 December 2015, eligible small businesses (companies with average annual gross receipts not exceeding USD 50M for the three preceding taxable years) can, for the first time, utilize research tax credits to offset alternative minimum taxes (AMT). Under this provision, a research credit determined by an eligible small business for tax years beginning in 2016 potentially may be carried back to offset AMT liability for prior tax. All other companies can only utilize the research tax credit to offset regular taxes.

Also for tax years beginning after 31 December 2015, qualified small businesses can utilize research credits to reduce payroll taxes. This new law applies to very small start-up companies that: (i) have gross receipts for the credit year of less than USD 5M; *and* (ii) have no gross receipts for any taxable year before the five-taxable-year period ending with the current taxable year, i.e., for the sixth year preceding the credit year and any years before the sixth year.

Eligible industries and qualifying costs

Qualified expenses
The incentive is intended to benefit all industries conducting qualified research. Consequently, all industries are eligible for the research credit.

Qualifying costs include: wages for in-house labor, 65% of contract research, and supplies used in the research process. Overhead and capital expenditure are excluded.

Supply regulations
Final regulations issued in 2014 address the treatment of prototype supplies used in research. The regulations provide that the costs incurred to construct a "pilot model" are qualified research expenses. A "pilot model" is any representation or model of a product that is produced to evaluate and resolve uncertainty concerning the product during the development or improvement of the product. The term includes a fully-functional representation or model of the product or a component of a product.

The regulations further provide that it is irrelevant whether R&D results in a product that ultimately is sold or used in the taxpayer's trade or business. Consequently, the cost of supplies used to construct a pilot model for design testing generally will qualify as a QRE even if the research is successful and the product developed through the R&D process is ultimately sold or the production equipment is placed in service.

The 2014 supply regulations generally will apply to the taxpayer's current tax year and the preceding three years. These regulations govern the deduction for R&D expenses, but these new rules also impact research tax credits because one of the requirements for the research tax credit is that the expenses qualify under the law that allows a current deduction for R&D expenses.

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R&D tax incentives (continued)

Internal use software final regulations
Before the issuance of final regulations on 4 October 2016, the legal standard for qualifying internal-use software was unclear. Expenses incurred for developing software that is primarily for internal-use can qualify for the research credit only if the software is highly innovative, which is an additional test to qualify for eligible R&D. The final regulations define software developed primarily for internal-use to include only software developed to perform general and administrative (G&A) functions. Importantly, the final regulations provide that software is not developed primarily for internal use if "[t]he software is developed to enable a taxpayer to interact with third parties or to allow third parties to initiate functions or review data on the taxpayer's system." Examples of this type of software include: software developed for third parties to execute banking transactions, track the progress of a delivery of goods, search a taxpayer's inventory for goods, store and retrieve a third party's digital files, purchase tickets for transportation or entertainment, and receive services over the internet. In other words, most software developed for use in e-commerce is no longer regarded as internal use software.

The government specified that this new guidance is intended to expand the opportunities for taxpayers to claim research credits for software-related expenses.

The final regulation applies to tax years beginning on or after 4 October 2016. The Internal Revenue Service also will permit taxpayers to rely on the proposed regulation or the final regulation, which are similar in all critical respects, for tax years ending on or after 20 January 2015.

IP and jurisdictional restrictions
There is no restriction on the location of any resulting IP. Qualifying activities must be performed within the U.S. and a U.S. taxpayer must incur the related qualifying costs (although such costs may be reimbursed by a foreign affiliate).

Other concerns
Taxpayers may amend prior year returns to claim tax credits if the tax year is open for assessment of tax (generally the three prior tax years). Before 2015, the ASC had to be elected on a timely filed original return. Final regulations issued in February 2015, however, provide that the ASC may be claimed on amended returns provided no research credit was reported for the tax year that is being amended. This new rule generally can be applied to the three tax years preceding the current tax year.

While the U.S. offers pre-filing agreements to resolve whether taxpayers are entitled to research credits prior to the filing of the return, such agreements are rarely used.

In 2015, the then-president Barack Obama signed into law the first permanent research tax credit. This adds certainty to the U.S. tax law that will likely enhance the intended incentive effect of the law.

IRS directive
The IRS issued a directive on 11 September 2017, which states that it would not challenge QRE that is equal to or less than certain R&D costs currently expensed on certified audited financial statements (prepared in accordance with the ASC 730 U.S. GAAP standards). The amount of QRE that the IRS will not challenge is referred to as the safe harbor amount. The directive provides that taxpayers must make numerous adjustments to the R&D expenses reported on their audited financial statements to determine the safe harbor amount. The adjustments are intended to align R&D expenses reported on financial statements with the rules applicable to determining QRE for research tax credit purposes. Companies wishing to take advantage of the safe harbor must file a form with the IRS stipulating that they made all of the appropriate adjustments to the R&D expenses reported on the audited financial statements in arriving at the safe harbor amount. Taxpayers also must stipulate that they have the documentation needed to prove that they made all appropriate adjustments. Taxpayers can claim a research credit for QRE that exceeds the safe harbor amount, although the additional QRE will fall outside of the scope of the safe-harbor directive and, therefore, will be subject to risk assessment by the IRS to determine whether an examination is warranted. The directive applies to original returns timely filed (including extension) on or after 11 September 2017, for taxpayers that choose to follow the terms of the directive.

United States

The U.S. offers a variety of incentives to encourage economic development and advance social policy objectives

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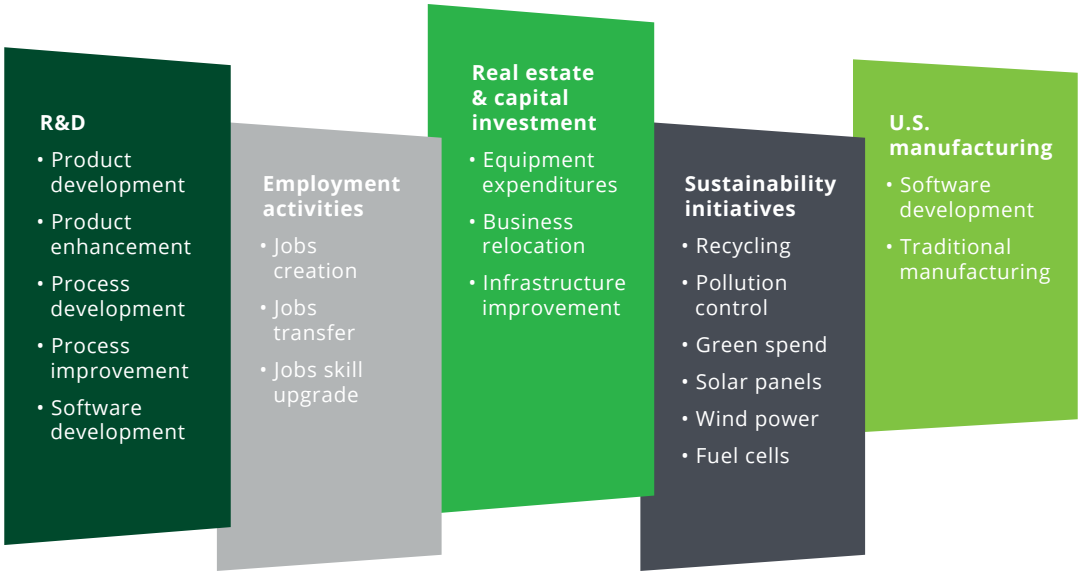
Government incentives



Innovation

Federal grants

There are over 900 programs offered by the U.S. federal government that provide grants for: (i) developing commerce and business; (ii) improving food and nutrition, health, and environmental quality; (iii) improving, promoting, and assisting agriculture and agricultural activities; (iv) improving energy resources; (v) training, employment, and labor management; and (vi) development and/or implementation of science and technology.

Incentives to encourage domestic manufacturing and certain other production activities: IRC Section 199 Domestic Production Deduction (DPD)

Section 199 is designed to foster job growth and retention in the U.S. for a broad base of industries, including those engaging in manufacturing, production, growth, and extraction activities. Beginning in 2005, section 199 provides for a 3% deduction equal to the lesser of a taxpayer's qualified production activities income (QPAI) or taxable income, for the taxable year. The allowable deduction increases to 6% for taxable years beginning in 2007, 2008, and 2009, and grew to 9% for taxable years beginning in 2010 and thereafter. The deduction is limited to 50% of the W-2 wages (i.e., wage subject to employment taxes) paid by the taxpayer during the calendar year that ends in the taxable year. There are tax reform proposals to repeal this deduction, but the repeal has not yet been enacted.

Investment

Low income housing (LIHTC)

A 10-year investment tax credit for investment in specified low income housing units is available. The credit is comprised of two parts: (i) a 30% subsidy (known as the automatic 4% tax credit) covering new construction that uses additional subsidies or the acquisition cost of existing buildings; and (ii) the 70% subsidy (9% tax credit), which supports new construction without any

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Government incentives (continued)

additional federal subsidies. The credit is claimed over a period of 10 years and the actual credit rate for each year is set by the Department of Treasury to approximate the net present value of either the 30% or 70% subsidies as noted above.

Historic rehabilitation
A rehabilitation investment credit is available for the rehabilitation of qualified structures. The credit is 10% for qualified rehabilitation structures, and 20% for certified historic structures. There are tax reform proposals to repeal this credit, but the repeal has not yet been enacted.

New Markets Tax Credit (NMTC)
IRC section 45D provides an incentive for investor banks to invest in projects in low-income communities in exchange for tax credits. At the project level, the NMTC provides a forgivable loan equal to approximately 25% of the project investor's equity in the project. At the lender level, the NMTC is equal to 5%–6% annually for seven years. The U.S. Treasury selects private organizations, known as Community Development Organizations (CDEs), which are given the right to decide which project investments in low-income communities will generate tax credits for the investor banks. There are tax reform proposals to repeal this credit, but the repeal has not yet been enacted.

Expired/expiring credits
Some of the credits noted in this summary have specific expirations/sunsets, as noted. In addition, there are several recently expired credits related to energy, fuels, vehicles, and renewable energy, which may be extended depending on the outcome of federal tax reform. Moreover, many of these credits may be claimed on an amended return if the qualifying activity occurred before the expiration of the incentive.

Employment—Work Opportunity Tax Credit (WOTC)
The WOTC is a federal tax credit for companies that hire and retain qualified employees from a variety of targeted groups. The credit is equal to 25% or 40% of a new employee's first-year wages, up to the maximum for the target group to which the employee belongs. Employers will qualify for a 25% credit if the employee works at least 120 hours and 40% if the employee works at least 400 hours. The maximum tax credit amounts depend on the new employee's target group and the number of hours worked during the first year of employment. There are 14 targeted groups, and a company can receive up to USD 9,600 per hire. There are tax reform proposals to repeal this credit, but the repeal has not yet been enacted.

Oil and natural gas incentives
Enhanced oil recovery credit: The enhanced oil recovery (EOR) credit provides a credit of 15% of the qualified enhanced oil recovery costs incurred in a tax year. This credit has been inapplicable for almost 10 years because high oil prices over that period have triggered the credit's automatic phase out provision. Due to the decline in oil prices during 2015 and 2016, the IRS confirmed in Notice 2016-44 that the EOR credit was applicable for the 2016 tax year. Subsequently, the IRS released Notice 2017-24 providing that the credit is available for 2017. There are tax reform proposals to repeal this deduction, but the repeal has not yet been enacted.

Qualified costs for the EOR credit include certain designated expenses associated with an EOR project, including:

- Amounts paid for depreciable tangible property;
- Intangible drilling and development expenses;
- Tertiary injectant expenses; and
- Construction costs for certain Alaskan natural gas treatment facilities.

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Government incentives (continued)

An EOR project generally is a project that involves increasing the amount of recoverable domestic crude oil through the use of one or more tertiary recovery methods defined by statute, such as injecting steam or carbon dioxide into a well to effect oil displacement. Even without a federal tax liability in the current year, the credit may be carried forward for 20 years or back for one year as a general business credit.

Marginal well tax credit (MWC): The MWC provides a USD 3 per-barrel credit for the production of crude oil and a USD .50 per-1,000 cubic feet credit for the production of qualified natural gas from a "qualified marginal well." On 12 September 2017, the IRS issued Notice 2017-51, which confirms availability of the MWC for taxable years beginning in calendar year 2016. The notice provides that the credit amount is USD 14 per 1,000 cubic feet. Due to the relatively high commodity price of natural gas since enactment of the MWC legislation, this is the first time that the MWC, which has a special five-year carryback provision, has ever been available to taxpayers. There are tax reform proposals to repeal this deduction, but the repeal has not yet been enacted.

A qualified marginal well generally includes a domestic oil well: (1) with production of not more than 15 barrels per day; (2) producing heavy oil; or (3) whose average production of not more than 25 barrels a day of oil and produces not less than 95% water. Marginal gas wells are those producing not more than 90 per 1,000 cubic feet per day.

Unlike most federal credits, the MWC contains special carryback provision allows unused marginal well credits to be carried back for up to five years (rather than the generally applicable carryback period of one year).

Environmental sustainability

Wind production tax credit (PTC)

The PTC is a 10-year production tax credit of USD 2.3 per kw/hr for electricity produced from specified resources and sold to a third party. Specified resources include wind, biomass, landfill gas, waste to energy, etc. Absent future Congressional extensions, the PTC applies only to wind facilities beginning 1 January 2017. The PTC also begins a four-year phase-out starting from 1 January 2017. The credit is claimed beginning in the year the property is placed into service, but a special rule allows a taxpayer to "begin construction" on the property and upon the property being placed in service, claim the percentage of the credit available corresponding to the year that construction began.

Solar power investment tax credit (ITC)

The ITC provides a 30% investment tax credit for specified property used to produce electricity from renewable sources. These sources include solar, fuel cells, and combined heat/power systems (limited to a 10% credit). Absent future Congressional extensions, the ITC applies only to solar facilities beginning after 31 December 2016. The ITC will begin a three year phase out starting on 1 January 2020. The credit is claimed beginning in the year the property is placed into service, but a special rule allows a taxpayer to "begin construction" on the property and, upon placing the property into service, claim the percentage of the credit available corresponding to the year construction began. After the phase-down, the ITC for solar will be a permanent 10% credit.

Electric vehicle credit

The EVC provides an investment tax credit for the purchase of new qualified plug-in electric drive motor vehicles. The credit amount varies with battery capacity from USD 2,500 to USD 7,500. There is a one-year phase-down when total EV production of the specific vehicle exceeds 200,000 units.

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Government incentives (continued)

Other

State grants and incentives

State and local governments offer tax credits and financial incentives aimed at increasing employment and attracting new investment in their communities. From a business perspective, credits and incentives, such as job creation and investment tax credits, capital grants, property tax exemptions, and infrastructure improvement grants offer companies a potential opportunity to reduce or offset operational expenses and increase profitability.

The below are the primary categories of state and local credits and incentives:

- **Statutory credits/exemptions:** Tax-based offsets authorized by statute and administered usually by a department of revenue. The offsets are typically based on the amount of the investment, jobs and the location of the business activity.
- **Employment-related incentives:** Federal and state off-sets (cash or tax credit) for employment-related activities such as creating jobs, hiring eligible employees, and training.
- **Discretionary incentives:** State and local jurisdictions offer "negotiated" or "discretionary" tax and financial offsets when another jurisdiction is competing for the investment.

A variety of past, current, and prospective operational factors may provide taxpayers with credit and incentive (C&I) opportunities. Common triggers for C&I opportunities include, but are not limited to:

- Real estate transactions;
- Capital investment;
- Employment projections; and
- Sustainability initiatives.

Sample states discretionary incentives

Alabama
- Jobs Act Incentives
- Reinvestment & Abatement Act

Arizona
- Competes Fund
- Quality Jobs Tax Credit

California
- CA Competes Tax Credit

Florida
- Urban Job Tax Credit Program
- Qualified Target Industry Refund Program

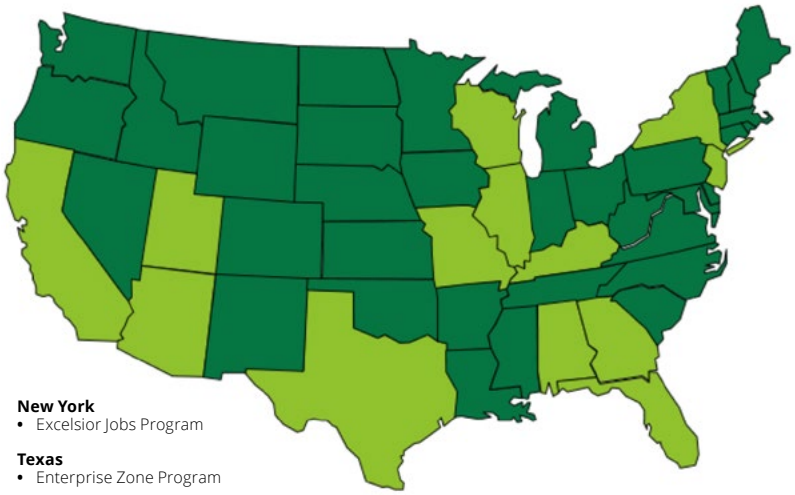
Georgia
- REBA Grant
- Job Tax Credit

Illinois
- EDGE

Kentucky
- Business Investment Program

Missouri
- MO Works Program

New Jersey
- Grow NJ



New York
- Excelsior Jobs Program

Texas
- Enterprise Zone Program

Utah
- EDTIF

Wisconsin
- Business Development Tax Credit

Sample states statutory credits

California
- R&D Credit

Connecticut
- Fixed Capital Investment Credit

Georgia
- R&D Tax Credit

Illinois
- R&D Credit

Massachusetts
- Investment Tax Credit

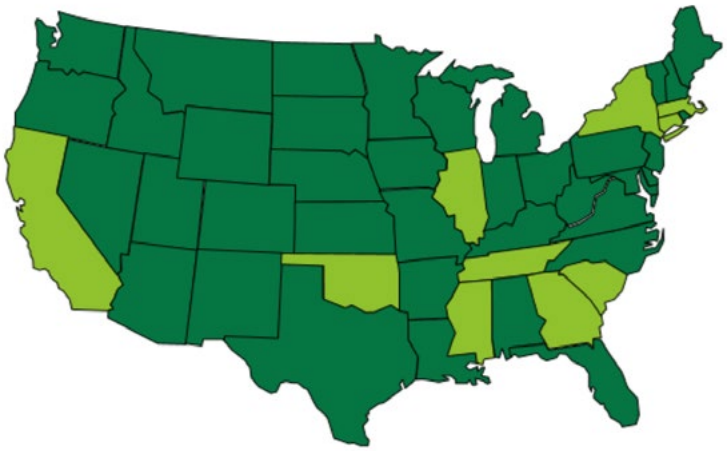
Mississippi
- Investment Tax Credit

New York
- Investment Tax Credit
- Employment Incentive Credit

Oklahoma
- Investment Tax Credit

South Carolina
- Capital Investment Credit

Tennessee
- Industrial Machinery Credit



Appendix 1

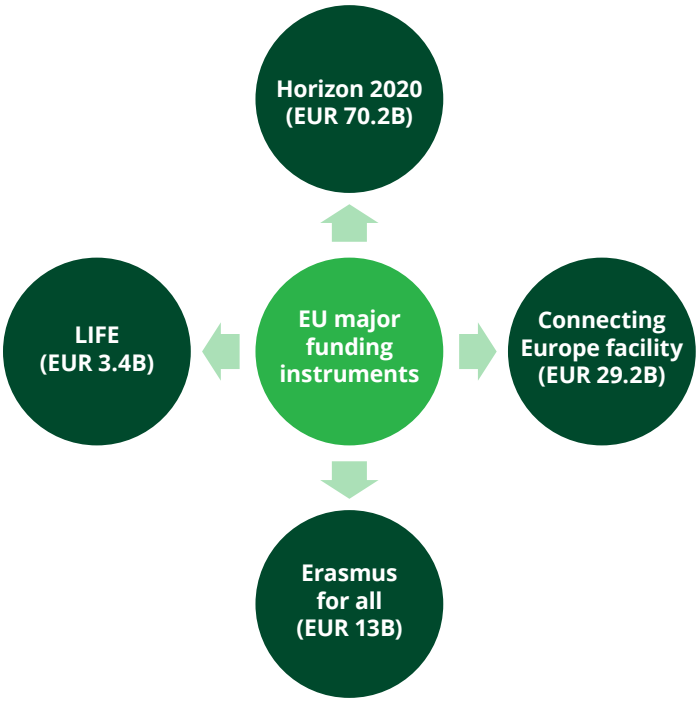
EU Funding 2014–2020

EU Funding 2014–2020

EUR 500B in opportunities

In addition to national grants funded by the governments of the EU member states, the EU itself provides funding for R&D and other policy initiatives to achieve the Europe 2020 Growth Strategy. The Multiannual Financial Framework (MFF) plays an important role in the implementation of this strategy. More than EUR 500B is available to support inclusive, smart, and sustainable growth in the EU. A substantial increase in the funding for research, innovation, and education compared to the previous framework program reflects the EU's current policies.

Funding instruments—Several programs have been designed under the new MFF to promote growth and create jobs. In addition to the EUR 333.6B budget to be allocated to Structural and Cohesion Funds (de-centrally managed by the EU member states and granted as if they were national funding), there is a wide range of instruments centrally managed by the European Commission. The most representative instruments in terms of budget are identified below.



Horizon 2020—Horizon 2020 is the EU's program for research and innovation, which supports the development of key enabling technologies, including:

- Information and communication technologies (ICT);
- Nanotechnologies;
- Advanced materials;
- Advanced manufacturing and processing;
- Biotechnology; and
- Space.

Horizon 2020 funded projects also focus on the following EU societal challenges:

- Health, demographic change, and wellbeing;
- Food security, sustainable agriculture, marine and maritime research, and the bio-economy;
- Secure, clean, and efficient energy;
- Smart, green, and integrated transport;
- Inclusive, innovative, and secure societies; and
- Climate action, resource efficiency, and raw materials.

Excellent science also is supported under Horizon 2020.

LIFE—The LIFE program is the EU's funding instrument for the environment and climate action. The program provides funding support to business and government projects related to climate change, resource efficiency, conservation, and biodiversity. Collaboration between SMEs and local or regional governments—where many potential LIFE projects are conceived—is encouraged, but not essential. The EU mainly assesses LIFE grant applications based on the size of the European environmental problem that will be addressed. Proposals must have an excellent score with regard to technical and financial cohesion, and the European dimension of the project is essential. As a result, projects that are eligible for LIFE tend to be large, and once approved, the grant can fund to up to 60% of eligible costs.

EU Funding 2014–2020

Connecting Europe—The Connecting Europe Facility (CEF) is a key EU funding instrument to promote growth, jobs, and competitiveness through targeted infrastructure investment at the European level. It supports the development of high performing, sustainable, and efficiently interconnected trans-European networks in the fields of transport, energy, and digital services. CEF investments fill the missing links in Europe's energy, transport, and digital backbone.

The CEF benefits persons across all member states, as it makes travel easier and more sustainable, enhances Europe's energy security, while enabling broader use of renewables, and facilitates cross-border interaction between public administrations, businesses, and citizens.

In addition to grants, the CEF offers financial support to projects through innovative financial instruments, such as guarantees and project bonds. These instruments create significant leverage in their use of the EU budget and act as a catalyst to attract further funding from the private sector and other public sector players.

Erasmus+—Erasmus+ is the EU program for education, training, youth, and sport that aims to modernize these areas across Europe. It is open to education, training, youth, and sport organizations across all sectors of lifelong learning, including school education, higher education, adult education, and the youth sector.

Eligible countries—Horizon 2020 is open worldwide, but participants from non-EU countries are not always eligible for funding.

Countries automatically eligible for funding:

- *EU member states:* Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the UK.
- *Overseas countries and territories (OCT) linked to the member states:* Anguilla, Aruba, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Curaçao, Falkland Islands, French Polynesia, Greenland, Montserrat, New Caledonia, Pitcairn Islands, Saba, Saint Barthélémy, Saint Helena, Saint Pierre and Miquelon, Sint Eustatius, Sint Maarten, Turks and Caicos Islands, and Wallis and Futuna.
- *Associated countries:* Legal entities from associated countries can participate under the same conditions as legal entities from the EU member states. Association to Horizon 2020 takes place through the conclusion of an international agreement. As from 1 January 2017, the following countries are associated to Horizon 2020: Albania, Armenia, Bosnia and Herzegovina, Faroe Islands, Georgia, Iceland, Israel, Macedonia (former Yugoslav Republic), Moldova, Montenegro, Norway, Serbia, Switzerland, Tunisia, Turkey, and Ukraine.
- *Developing countries,* unless they are explicitly excluded in the relevant call: Afghanistan, Algeria, American Samoa, Angola, Argentina, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bhutan, Bolivia, Botswana, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, Colombia, Comoros, Congo (Democratic People's Republic), Congo (Republic), Costa Rica, Cuba, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Indonesia, Iran, Iraq, Ivory Coast, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Korea (Democratic Republic), Kosovo, Kyrgyz Republic, Laos, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Micronesia, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Palau, Palestine, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Samoa, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, South Sudan, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syria, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Turkmenistan, Tuvalu, Uganda, Uzbekistan, Vanuatu, Uruguay, Venezuela, Vietnam, Yemen, Zambia, and Zimbabwe.

Countries that are not automatically eligible for funding
Legal entities established in industrialized countries and emerging economies not listed above will be eligible for funding if so provided in the relevant call.

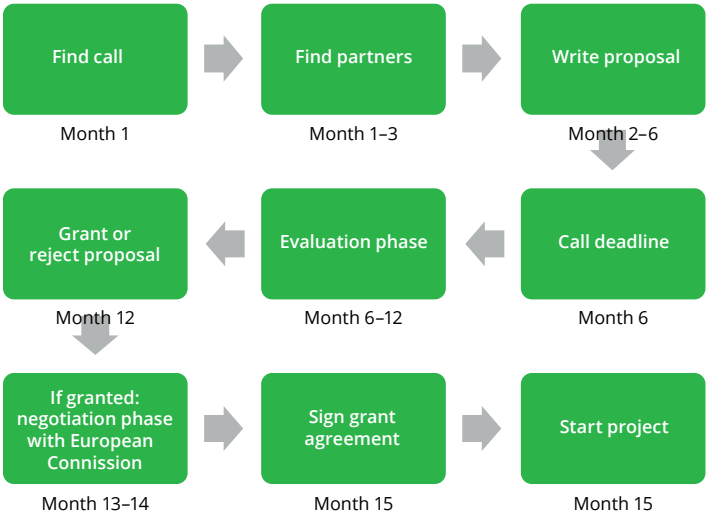
EU Funding 2014–2020

Criteria for participation
To be eligible for funding, an applicant consortium must comprise at least one entity established in one EU member state or associated country for coordination and support projects, and at least three entities established in at least three different EU member states or associated countries for research and innovation or innovation projects.

Brexit—The UK's decision to leave the EU creates uncertainty about the continuing ability of UK companies to claim EU funding. However, until the exit actually occurs, the UK will continue to have all of the rights, obligations, and benefits of membership, including receiving European funding.

The nature of the continuing relationship with the EU will be clarified in the negotiations during 2017 and 2018, but the UK government has confirmed that structural and investment funds projects signed before the 2016 Autumn Statement (23 November 2016) and Horizon research funding granted before the UK leaves the EU will be guaranteed by the Treasury after that date.

Application process—The application process can be represented as follows:



Only costs (i.e., for research, development, and innovation) that are incurred after the grant agreement is signed with the European Commission are eligible. Reimbursement of previously incurred costs are not eligible.

In general, calls for proposals are announced once every two years through work programs. More information on Horizon 2020 and specific calls for proposals is available on the EC Participant Portal: https://ec.europa.eu/research/participants/portal/desktop/en/home.html

Key differences over national grant programs—The main differences are:

- EU funding rates generally are higher than national funding rates (up to 100%);
- The EU funding amount per project is significantly higher;
- In general, collaboration of at least three partners from three different EU member states is required, whereas national funding only requires national or no collaboration;
- The time required from the date an application is submitted to the time a grant agreement is signed with the European Commission is longer than for national grants (it usually takes nine to twelve months to finalize a grant agreement);
- The success rate in obtaining an EU grant generally is lower than for national grants due to:
  - More competition in the calls for proposals;
  - Fewer projects being granted; and
  - Very high required level of performance of the project, the partners, and the European impact.

EU grants: Think first and plan ahead—European grants procurement is complex, competitive, but lucrative when successful. Lucrative not only financially, but also considering knowledge, networks, and exposure. To benefit most from EU grants, a "top-down" approach is essential, following the applicant organization's R&D roadmaps. This will help to maintain focus, be aware of relevant calls and grant opportunities, provide sufficient time to organize with partners, and draft successful applications. A top-down approach will provide scope for lobbying for new topics within the EU frameworks.

Appendix 2

Summary of key criteria

Comparative analysis

Countries	Refundable research tax credits	Location of IP may impact research incentives	Qualifying research must be performed within the country	Countries that allow some research to be performed outside the country	Countries that permit qualifying research activities to be performed outside the country without any restriction	Qualifying contract research allowed	Patent box	Countries offering research grants only	Countries offering a super deduction	Additional super-deduction
Angola[1]										
Australia	●			●		●				
Austria	●			●		●				
Belgium	●	●		●		●	●		120.5%	
Brazil			●			●	●		160%	170% or 180%
Canada	●			●		●	●			
China		●		●		●	●		150%	175%
Croatia[2]						●				
Czech Republic				●		●			200%	210%
Denmark	●					●				
Finland					●	●				
France	●			●		●	●			
Germany		●	●			●		●		
Greece				●		●	●		130%	
Hungary					●	●	●		200%	
Iceland	●				●	●				
India			●			●	●		150%	
Ireland	●			●		●	●			
Israel		●	●			●	●			
Italy				●		●	●			
Japan					●	●				
Latvia		●		●		●			300%	
Lithuania					●	●			300%	
Malaysia		●		●		●			200%	
Mexico		●	●			●				
Netherlands		●		●		●	●			
Norway	●			●		●				
Poland				●		●			150%	
Portugal					●	●	●			
Romania				●		●			150%	
Russia					●	●			150%	
Singapore	●			●		●			200%	
Slovakia					●	●			125%	150%
South Africa			●			●			150%	
South Korea				●		●	●			
Spain	●			●		●	●			
Sweden			●							
Switzerland[3]										
Turkey			●			●	●		100%	150%
UK	●			●		●	●		230%	
USA			●			●				

1. Incentives for Angola target general investments that are not limited to R&D.
2. The R&D incentive for Croatia expired in May 2016. It is expected that a tax relief will be introduced for R&D activities in 2018.
3. The Swiss tax reform proposal includes a super deduction of 150% and a patent box providing a tax relief of up to 90% on income arising from qualifying patents or similar rights. A patent box currently exists at the cantonal level.

Refundable research tax credits

Country	Explanation
Australia	SMEs are eligible for a refundable tax credit of 43.5% of qualifying research expenses (QREs), but QREs are not deductible (SMEs are entities with gross receipts of less than AUD 20M that are not more than 50% controlled by exempt entities).
Austria	A refundable 14% volume-based tax credit is available for all taxpayers to the extent the credit exceeds the amount of the company's tax liabilities.
Belgium	Excess tax deductions may be converted into a tax credit that is refundable after five years if not utilized.
Canada	A 35% federal investment tax credit is available for small Canadian-controlled private corporations on up to CAD 3M of qualifying expenditure per year. This limit applies to all corporations in an associated group. The corporate group of companies must have less than CAD 800K of taxable income and less than CAD 50M in taxable capital employed in Canada to qualify for the refundable ITCs. These caps are based on the prior year.
Denmark	The tax value of any loss arising from R&D can be monetized and refunded rather than being carried forward for offset against future profits. The cash credit can be claimed on losses up to a maximum of DKK 25M.
France	If research tax credits are not utilized within three years, the taxpayer receives a refund for the unutilized credits. SMEs, new companies, young innovative companies, and companies with financial issues can request immediate refunds of unutilized credits.
Iceland	If the tax credit exceeds the income tax liability in the relevant fiscal year, the unutilized portion can be paid out by the Treasury in the following fiscal year.
Ireland	Unused credits may be carried back one accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over three years), subject to certain limitations and caps.
Norway	The excess of the credit over taxes payable for a given year is refundable in cash to the company.
Singapore	There is an option to convert up to SGD 100K of qualifying R&D expenditure into a non-taxable cash grant at the rate of 40% (i.e., SGD 60K) per tax year.
Spain	Taxpayers can elect to reduce the credits they could otherwise utilize by 20% to receive a refundable credit. The refund is subject to annual limitations and certain requirements, which limit opportunities for refunds.
United Kingdom	Cash credits are available for SMEs in a loss position, up to 33.35% of qualifying expenditure. Large companies can elect to claim a refundable and taxable credit of 11%. This cash credit is capped at an amount equal to the payroll taxes and social security costs associated with the employees whose costs are included in the claim.

Location of IP may impact research incentives

Country	Explanation
Belgium	The R&D tax credit and super deduction may be claimed for R&D work performed outside Belgium, but the claimant must retain some associated IP in Belgium to receive the tax benefit. There is no IP ownership requirement for the partial wage tax exemption.
China	The IP must be held by the Chinese applicant to qualify for the super deduction. For the HNTE incentive, while less than 40% of the qualifying R&D expenses can be incurred outside China, the authorities may consider whether IP has been created and retained in China in granting HNTE status.
Germany	The IP created through the research must (initially) remain in Germany or in the EU. Nevertheless, large multinational companies with IP relocated to headquarters outside Germany also may qualify for funding in certain cases.
Israel	Under most grants, the IP must remain in Israel. However, the transfer of IP outside of Israel is possible, subject to the approval of the Innovation Authority, and may require additional payments. In some programs, the resulting IP does not have to reside within Israel, although location is considered in the granting process.
Latvia	If the company applying for R&D tax incentives creates IP, it must retain ownership of the IP for at least three years, but there is no requirement that the research result in IP.
Malaysia	While tax incentives generally require that the R&D work be performed in Malaysia, there are exceptions.
Mexico	The IP rights must be registered in Mexico.
Netherlands	Ownership of IP is an important consideration in qualifying for the innovation box. There are no restrictions on the IP location for the WBSO.

Qualifying research must be performed within the country

Country	Explanation
Brazil	Only expenditure incurred in Brazil is eligible for the incentives (except for the IPI reduction).
Germany	R&D activities must be conducted and R&D costs must be incurred in Germany.
India	R&D activities must be conducted in India.
Israel	R&D activities must take place in Israel, and the Israeli company must incur the R&D-related expenditure.
Mexico	R&D activities must take place in Mexico.
South Africa	R&D expenses must relate to activities that are undertaken within South Africa.
Turkey	Qualifying activities must take place in Turkey.
United States	Qualifying activities must be performed within the US and the related qualifying costs must be incurred by a US taxpayer (although such costs may be reimbursed by a foreign affiliate).

Countries that allow some research to be performed outside the country

Country	Explanation
Australia	Up to 50% of the total project costs of R&D activities can be physically performed outside Australia and remain eligible for benefits if an Advance Overseas Finding has been approved by the government.
Austria	Activities must take place in Austria with the exception of subcontracted research. Subcontracted research must follow management and direction from an Austrian business or branch or PE in Austria. The subcontractor must be based within the EU/EEA.
Belgium	The R&D tax credit and investment deduction may be claimed for R&D work performed outside Belgium, but the claimant must retain some associated IP in Belgium to receive the tax benefit.
Canada	Research generally must be undertaken in Canada to qualify as SR&ED, but where employees of the claimant are working outside of Canada, the amount of eligible wages for SR&ED performed outside Canada is limited to 10% of eligible wages claimed for SR&ED performed in Canada.
China	Qualifying activities must take place in China. However, less than 40% of the activity qualifying for the HNTE incentive may take place outside of China.
Czech Republic	Not all R&D activities must take place in the Czech Republic to qualify for a super deduction, but qualifying expenses must be tax-deductible expenses of the Czech taxpayer.
France	Qualifying activities must take place in the EU/EEA.
Greece	While there are no specific jurisdictional restrictions, the need to carry on research outside of Greece must be disclosed to General Secretariat of Research and Technology (GSRT) and could affect whether the GSRT issues a certificate approving R&D expenses.
Ireland	Qualifying activities must take place in Ireland or the EU/EEA. However, the credit will be denied when the activities take place in an EU/EEA country that grants a corresponding tax deduction for the expenditure.
Italy	Qualifying expenses include R&D contracted to a resident of the EU/EEA or of a country that allows an adequate exchange of information.
Latvia	A company may outsource R&D to Latvian or the EU/EEA scientific institutions/test laboratories provided they are publicly recognized or meet certain criteria.
Malaysia	While tax incentives generally require that the R&D work be performed in Malaysia, exceptions for the 200% super deduction are considered on a case-by-case basis. Payments for technical services performed outside of Malaysia may qualify for the super deduction if the amount expensed is not more than 70% of the total allowable expenditure for the super deduction.
Netherlands	To claim the WBSO and RDA incentives, the R&D activities must take place within the EU and be performed by employees on the Dutch payroll.
Norway	The qualifying activities can be carried out in Norway or abroad.
Poland	Some qualifying research can be conducted outside the country provided the costs are related to a project conducted by the Polish applicant.
Romania	All R&D activities must take place in Romania or an EU/EEA member state.
Singapore	Some of the super deductions can be claimed for R&D performed outside the country, provided the R&D expenditure is related to the Singapore company's existing trade or business and that any benefit that arises from the R&D accrues to the Singapore company.
South Korea	Research activities may take place outside of South Korea, but any subcontracted research to university or college must be located in South Korea.
Spain	Qualifying activities must take place in Spain or an EU/EEA member state.
United Kingdom	Research activities may take place outside the UK, but the work must be supervised by the UK company.

Countries that permit qualifying research activities to be performed outside the country without any restriction

Country	Explanation
Finland	There are no requirements on where the R&D can be conducted.
Hungary	There are no limitations on where the R&D can be conducted.
Iceland	There are no limitations on where the R&D can be conducted.
Japan	There are no limitations on where the R&D can be conducted.
Lithuania	There are no limitations on where the R&D can be conducted.
Portugal	R&D activities may take place outside of Portugal, but the qualifying expenses must be incurred by a Portuguese entity.
Russia	There are no limitations on where the R&D can be conducted.
Slovakia	There are no limitations on where the R&D can be conducted.

Qualifying contract research allowed

Country	Explanation
Australia	Fees paid to contractors to perform research on the taxpayer's behalf are qualifying research expense if the work performed by the contractor is directly related to the R&D activities.
Austria	Contracted research expenses may be claimed by the party funding the research up to a credit cap of EUR 1M per year. The subcontractor must be a qualifying EU/EEA institution and not a related party.
Belgium	Qualifying costs include contracting costs.
Brazil	Payments made to contractors for technical services may be qualifying if the taxpayer does not participate in the research. Payments made to small businesses for the implementation of research projects qualify.
Canada	80% of the fees paid to contractors to perform qualifying research qualify for the research credit.
China	The principal may recognize up to 80% of the total actual R&D expenses for the contract R&D expenses that are on arm's length terms for purpose of claiming the super deduction.
Croatia	Costs incurred for contractors that provide research services are eligible expenses.
Czech Republic	Qualifying contract research expenses are limited to R&D services provided by public universities and public research institutions.
Denmark	Amounts paid to third parties for carrying out R&D are included in qualifying expenses.
Finland	R&D contractor expenditure can be included in the deduction.
France	There is a cap on private subcontracted research equal to three times the other qualifying expenses (up to EUR 10M in subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to EUR 2M.
Germany	Subcontracted research expenses may be claimed.
Greece	Contract research is allowed by General Secretariat of Research and Technology-approved organizations, such as public institutions, labs and research organizations.
Hungary	Contract expenditure is a qualifying expense. Incentives are available to foreign entities that do not have a PE in Hungary and that subcontract in Hungary.
Iceland	Contracted research expenses may be claimed.
India	A deduction of 100% (125% before 1 April 2017) is available for specified payments made to scientific research companies/research institutions/universities/colleges/other institutions for the purposes of scientific and statistical research.
Ireland	Fees paid to a contractor to perform research on the taxpayer's behalf is a qualifying research expenditure if the contractor is not related to the taxpayer. Fees paid to third-party contractors are limited to the greater of EUR 100K or 15% of the total qualifying research expenditure. Where the R&D activities are contracted to a university or research institution, the limit is 5% of the total qualifying research expenditure.
Israel	Contract research expenses are eligible as qualifying expenditure.
Italy	Contract research expenses paid for conducting research generally are eligible for the incremental research credit. Intercompany contracted research is allowed with some limits.

Qualifying contract research allowed (cont.)

Country	Explanation
Japan	Contracted expenditure is a qualifying expense for SMES and large companies.
Latvia	Contracted research is allowed, but only where it is provided by publicly recognized scientific institutions in Latvia or similar institution within the EU/EEA.
Lithuania	Purchased services, such as consultation services related to research activities, are qualifying expenditure.
Malaysia	Contract expenditure is a qualifying expense if incurred directly for the conduct of qualifying research.
Mexico	Contract research expenses are eligible as qualifying expenditure.
Netherlands	Contract expenditure can be a qualifying expense for the WBSO incentive.
Norway	Costs incurred on the purchase of R&D services are considered qualifying expenditure for the tax credit.
Poland	Contract expenditure is a qualifying expense for the super deduction.
Portugal	Expenses incurred for contract research qualify for research incentives provided the entity is recognized as possessing R&D capabilities (subject to some exceptions).
Romania	A paying party that contracts R&D activities to a third party can treat the amount paid as a qualifying research expense. Also, the third party can benefit from the incentive for the expenses provided the party paying for the research does not use the incentive.
Russia	Contract expenditure may be a qualifying expense.
Singapore	Payments made to a R&D organization and payments made under any cost-sharing agreement are eligible (subject to some limitations).
Slovakia	Fees paid for contracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutions. Fees paid to certified private R&D organizations also are eligible provided the organization does not also claim the super deduction for the costs it incurred in providing the qualifying services.
South Africa	Contract expenditure is eligible for the super deduction
South Korea	Contract expenditure is a qualifying expense if paid to university or other research institutions.
Spain	Amounts paid to third parties in the EEA for R&D activities may qualify for the tax credit at the request of the taxpayer.
Turkey	Contract expenditure (outsourced benefits and services) is a qualifying expense.
United Kingdom	SMEs can claim 65% of contracted costs. Large companies only can claim contracted expenses if paid to universities, health authorities, charities, scientific research organizations, individuals, or partnerships of individuals.
United States	65% of the amount paid to contractors to perform research on the taxpayer's behalf within the US are QREs if: (i) the taxpayer bears the risk of loss in the event the research is unsuccessful e.g., time-and-materials contracts; and (ii) the taxpayer retains a right to the research results.

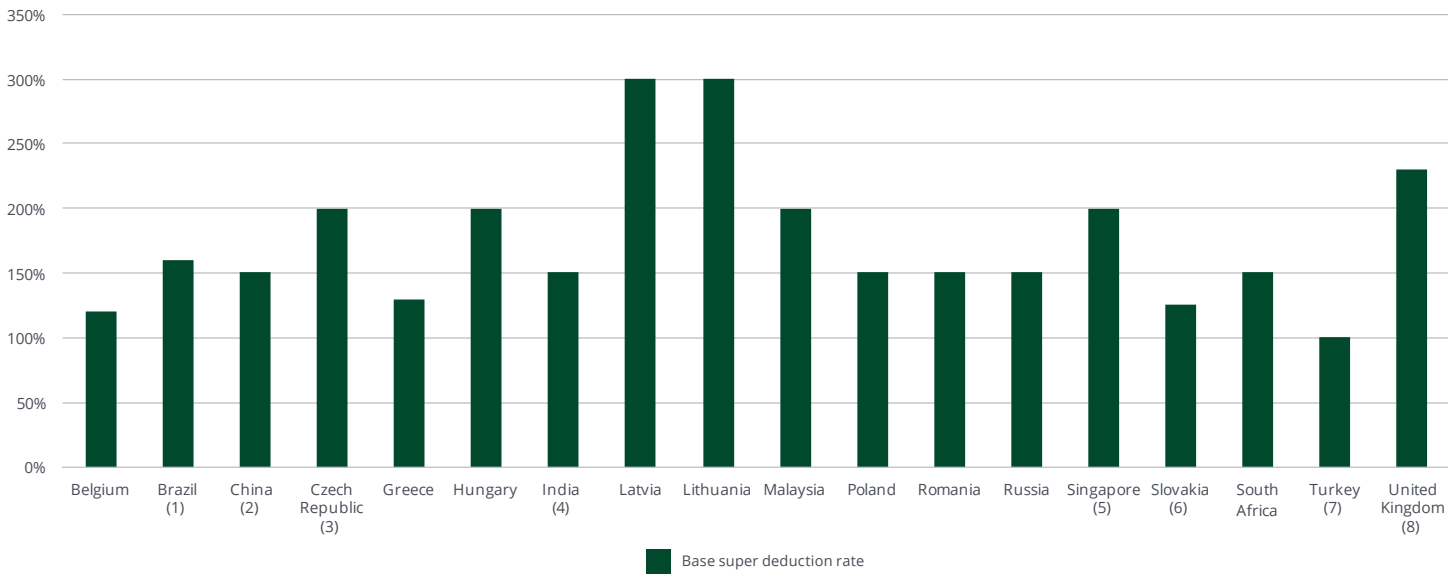
Patent box

Country	Explanation
Belgium	Taxpayers can deduct 80% of qualifying IP income from taxable income under the old PID regime and 85% under the new IID regime (still in draft form).
Brazil	An extra 20% deduction is allowed for IP-related development expenses, but only if a patent is registered.
Canada	Quebec has introduced a new patent box regime that applies to innovative manufacturing corporations. The patent box is limited to corporations with more than CAD 15M of taxable capital (sum of long-term debt and equity).
China	Taxpayers granted HNTE status are subject to a reduced 15% EIT rate. The first CNY 5M of annual income from qualified technology transfers (including income from a non-exclusive license with a license term of no less than five years) is exempt from EIT. Annual income from qualified technology transfers in excess of CNY 5M is taxed at 50% of the standard EIT rate.
France	Income from the licensing or sale of patents or patentable technology is taxed at a reduced rate of 17%, provided the technology was owned by the French company for at least two years; the sale of the technology to related parties is excluded from the benefit of the 17% rate. For the French licensee, the royalty fee is deductible at the standard corporate income tax rate (unless the licensee does not effectively exploit the IP rights).
Greece	Income attributable to an international patent is tax exempt during the first three years the patent is used. The profits will be treated as a non-taxed reserve, which will be taxed upon use.
Hungary	50% percent of the gross royalty from IP (up to 50% of pretax profit) may be deducted from the corporate income tax base. Gains derived from the sale/transfer of qualifying IP are tax exempt.
India	Royalty income of an Indian resident that is the owner of a patent developed and registered in India is taxed at a rate of 10% (plus the applicable surcharge and cess) on a gross basis. Royalty income is included in the patent box as from tax year 2016–2017.
Ireland	The knowledge development box, which is effective for tax years commencing on or after 1 January 2016, reduces the tax rate on the profits earned by the Irish resident company performing the R&D (as per the definitions of R&D in the R&D tax credit legislation) that are attributable to the invention to 6.25% (compared to the standard 12.5% corporation tax rate).
Israel	Enterprises qualifying for the preferred technology enterprise and the special preferred technology enterprise regimes benefit from a reduced tax rate on capital gains derived from the sale of an intangible asset to a foreign related corporation (12% and 6%, respectively).
Italy	A patent box provides a 50% tax exemption from IRES and IRAP for profits earned from IP. The incentive is available starting from FY2015 at the taxpayer's option and is binding for five years.
Netherlands	Qualifying income (net of development costs) allocated to the innovation box is taxed at a reduced rate of 5%.
Portugal	The patent box regime provides a deduction of a portion (up to 50%) of the income generated by IP developed through R&D undertaken in Portugal.
South Korea	If a SME purchases or transfers certain IP (prescribed in the tax law) from a Korean third-party resident, the SME is entitled to claim a tax credit in the amount equal to 7% of the purchase price. If a SME transfers or leases such IP to a Korean third-party resident, the SME is entitled to a tax exemption in the amount of 50% of the corporate income tax on capital gains resulting from the transfer, or 25% of the corporate income tax on rental income, respectively.
Spain	60% of IP related income is exempt from taxable income.
Switzerland	The Canton of Nidwalden currently offers an incentive for R&D activities in the form of an IP box, which allows an 80% reduction of the cantonal tax rate for net income from the exploitation of IP. Under a proposed tax reform, a mandatory cantonal-level patent box would provide tax relief of up to 90% on income arising from qualifying patents or similar rights.
Turkey	Income from inventions resulting from R&D and software activities performed in Turkey by corporate taxpayers is reduced by 50% to the extent the income is attributable to a lease, transfer, or sale. Income attributable to the sale of products that are mass produced in Turkey by using the invention are exempt from corporate tax as from 1 January 2015. Qualifying income from leasing, transferring, and selling intangible rights arising from the R&D activity also are exempt from VAT.
United Kingdom	A proportion of income generated from patents may be taxed at a reduced rate of 10% under the patent box regime that applies to income earned as from 1 April 2013.

Countries offering research grants only

Country	Explanation
Germany	Nonrepayable cash grants for research projects are awarded on a "per project" basis, usually for collaborative projects.

Countries offering a super deduction



Notes:

1. Companies can get up to a 180% super deduction provided their researcher headcount increases from the prior year. See write-up for details.
2. Small and medium-sized qualifying science and technology enterprises can benefit from an increased super deduction of 175%.
3. The super deduction is 210% for incremental qualified costs from the prior tax period.
4. Different super deduction percentages may apply for different types of expenditure. See write-up for details.
5. This percentage reflects the capped amount applicable to most of the super deductions offered under the complex multi-tiered regime.
6. The super deduction is 150% for expenditure incremental to the prior tax period.
7. Companies can obtain an additional 50% deduction for incremental expenditure from the prior tax year.
8. The super deduction is available only to SMEs. Large companies can obtain a tax credit. See write-up for details.

Appendix 3

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