



R&D tax alert Belgium

Frascati Manual – New Edition 2015

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Global Overview

Published for the first time in 1963 by the OCDE, the initial aim of the Manual was to enable the measurement and comparison of Research and Development (R&D) efforts carried out over different countries. Therefore, the Manual states global R&D definitions and statistical tools to evaluate the R&D investment.

Since then, the evolution of the economic context strengthened the interest of such a manual. Therefore, the application of the manual exceeded its target, as well in geographical terms by becoming a worldwide standard, as in application terms by being used in a wide range of policy areas, *notably for funding and tax incentives purposes*.

Throughout the years, several revisions have been issued, the last revision dating from 2002. In 2013, a collective working group, composed of over 90 national experts, initiated the redaction of the seventh edition. This edition has been published in October 2015, and comprises 1/3 more pages (400 overall), and aims at being more precise by providing details on principles and practical examples.

Chapter 2 deals mainly with the scientific definitions of research fields and activities, and will be detailed below. The other chapters are more dedicated to methodology issues related to statistics and national accounting. A noticeable change in the accounting methodology is the newly introduced measurement in tax relief for R&D (chapter 13), while a significant change also occurs in the measurement of R&D personnel, where the qualification of researchers is defined by the accomplished tasks and not by the levels of the diploma (chapter 5).

We can expect from the national authorities to propagate over time the concepts and definitions exposed in this new version not only in the statistics, but also into national legislation or procedures for the practices of fundings and R&D Tax incentives.

Concepts and definitions for identifying R&D: 5 cumulative features now expressly put forward

The global principles remain consistent with the preceding revisions of the Frascati Manual, keeping constant the main definition of the stages of Research as "Basic Research", "Applied Research" and "Experimental Development".

However, significant evolutions are noticeable, such as the “updated” definition of R&D:

(New definition: underlined; old: ~~strikethrough~~)

Research and experimental development (R&D) comprise creative and systematic work undertaken ~~on a systematic basis~~ in order to increase the stock of knowledge, including knowledge of humankind ~~man~~, culture and society, and ~~the use of this stock of knowledge~~ to devise new applications of available knowledge.

R&D is formally presented as an activity aimed at producing new knowledge, increasing the basic stock of knowledge, and being one type of innovation (Innovation activities are described in the OECD Oslo Manual/2005). As a consequence, R&D projects and activities must comply with this definition. **Five criteria enabling to identify R&D projects** and activities are introduced and should be jointly satisfied:

- Novel: to be aimed at new findings;
- Creative: no routine, to be based on original, not obvious, concepts and hypotheses;
- Uncertain: to be uncertain about the final outcome, timing performance,
- Systematic: to be planned and budgeted; and
- Transferable and/or reproducible: to lead to results that could be possibly reproduced.

These five criteria do not contradict the previous definition of R&D activities, but they limit the misinterpretation.

Specific research domains: more focus on business enterprise R&D

The Manual completes this definition by giving an example of each type of R&D in several domains. While traditional scientific domains are described more precisely, new domains are introduced, provided they satisfy the criteria presented above: research for and on the arts, service activities, social sciences, humanities, and traditional knowledge.

Far beyond what was done by the previous editions, the Manual emphasizes on the definition of R&D activities for business. Testing, pilot lines, and prototypes remain eligible activities as long as scientific uncertainties are part of the project.

Further, globalization of R&D as well as the changes to the R&D value chains are recognized in the new Manual: it acknowledges external contributors to a given R&D team, as well as acknowledges extramural R&D in the sense of projects originated and performed outside a dedicated R&D team.

The new manual acknowledges the difficulty to classify large-scale projects as R&D, for example in fields such as big data, space, ...

Many examples of basic research, applied research and experimental development are given in the manual, most of them already listed in the previous manual. We observe that technological advances enable new sets of examples such as nanotechnologies, big data, internet.

More precise kinds of projects are also listed. For example, in the field of computer and information sciences, research on the properties of general algorithms for handling large amounts of real-time data is considered as basic research.

Furthermore, other examples are given in other Fields of Research and Development (FORD), such as the social sciences, humanities and the arts.

As a consequence, in order to establish the eligibility of a given project, one must establish a close examination on a case by case basis by field using these new guidelines.

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