

Press Release

One Third of Companies in the Czech Republic Face Uncertainty when Assessing Subsidies or R&D Tax Deductions

Prague, 27 November 2015 – The most significant problem in the current system of the support for research and development consists in the tax uncertainty when assessing subsidies or tax deductions by taxation or other authorities. This is according to one third of responding companies that participated in the third survey conducted by Deloitte in cooperation with the Technology Agency of the Czech Republic (TA ČR) in the first half of 2015. Other problems most frequently included unclear implementation instructions for the conditions of eligibility of costs including the method of their calculation, which was the answer of 21% of respondents. As stated by 16% of respondents, a significant problem in general is the identification of activities that comply with the conditions of development for an application in subsidies or a tax deduction.

“As compared to 2014, the most frequent problem mentioned in the 2015 survey was the uncertainty in the assessment by taxation authorities, while in 2014, the most frequent problem were unclear implementation instructions. This was the answer of 36% of respondents in 2014. This change may be due to an increased number of financial inspections and legal disputes regarding these issues and their presentation in media. After numerous years, an interpretation practice begins to be created, as no specifying changes were made in the implementation documents” said Luděk Hanáček, partner in Deloitte’s Tax and Legal function, who is responsible for this area when commenting on the results of the 2015 survey. *“With the start of a new programme period from 2014 to 2020, we can expect an increase in unclarities in implementation manuals for direct support, ie subsidies,”* added Luděk Hanáček.

“All of the above factors refer to the necessity of changes or modification of the legislation or methodological guidance. In addition, there is a significant need to bring the interpretation practice of rules for the provision of subsidies into line with all bodies involved in the process of provision and inspection of such subsidies,” said Rut Bízková, Chairwoman of TA ČR. *“To reduce the tax uncertainty in the application of tax deductions, a detailed interpretation to the assessment of the eligibility of the activities for the use of a tax deduction and introduction of mechanisms for an assessment and control increasing the assurance of taxpayers on the correct use of this indirect support would be beneficial,”* she added.

A total of 60% of companies answered a question relating to the attitude of companies to the use of subsidies by stating that they have a good knowledge of and use them. When mapping the attitude to the use of the R&D tax deduction, 29% of responding companies stated that they know of the tax deduction, but they are not sure about the position of taxation authorities when assessing the applied costs; for this reason, they treat the use of this tax deduction as risky in terms of tax certainty.

Growing Volume of Funds for Research and Development

The 2015 survey repeatedly confirmed a positive trend and willingness of companies to invest in research and development - almost half of respondents (45%) stated that they will increase their research and development costs in the following 3-5 years and 36% of companies plan making investments in support for research and development in the same amount as in 2014.

The volume of financial investments of companies in research and development is primarily impacted by the availability of qualified and experienced employees (71%). The second most significant factor (70%) for an increase in the investments in research is the possibility for the company to use several types of support (ie combination of subsidies, investment incentives, R&D tax deductions and other financial instruments).

“These findings are almost identical to the 2014 survey and it is apparent that companies are very consistent in the long-term in this respect. The results of the survey further confirmed that companies are interested in other forms of support than just the current ones,” said Luděk Hanáček.

Specific Forms of Cooperation with Third Parties

Most companies worked together with third parties due to the need for the common research (60%) and through the use of laboratories and equipment with devices (34%) and research at order (27%). On the contrary, the least used form of cooperation is the purchase of know-how or technology (12%).

Awareness of Financial Instruments in Research and Development

The current survey additionally indicated that companies would also like to use other forms of support on top of the current ones. The implementation of various financial instruments for the support of research and development is a current trend in the EU which may be attractive primarily for small and medium sized companies that frequently have more difficulty accessing the financing of their research or development activities.

Increased interest in the use of financial instruments in research and development can be also anticipated in the following years. It is likely that the use of financial instruments may concurrently contribute to dealing with specific research and development projects that cannot be financed by the private sector due to the assessment of risks.

The entire study entitled **Tax and grant support for research and development activities** can be downloaded at: www.deloitte.com/cz/vyzkum-vyvoj.

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