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2014 Global Survey of R&D Tax Incentives

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Preface

A significant number of countries now offer the critical operational pre-requisites for successfully conducting effective research and development (R&D), i.e., access to growing markets/customer base, access to talent, intellectual property protection, stable economy/government and information technology infra-structure. Accordingly, many countries are promoting optimization of R&D operations including re-location as part of their innovation-led economic development strategies. R&D tax incentives are an important component of these strategies.

Countries offering R&D tax incentives are often regarded as a favourable location for internationally-mobile R&D. When efficiently allocated, companies can effectively leverage their global R&D infrastructure resulting in the development of valuable intellectual properties.

R&D incentives vary by country with regard to the following "key" considerations:

- Computational mechanics;
- The levels of benefits available; and
- The certainty of realizing an economic benefit from the tax incentive.

Although the basic definition of "research and development" is similar across many countries, distinctions exist within sovereign laws. Some countries offer particularly lucrative incentives, subject to few restrictions on the location of the qualified research activity, funding of R&D, ownership of IP, etc.; while others offer basic incentives with significant limitations, including eligible industries, qualified costs, and applications procedures. Most research incentives are designed to encourage companies to maintain a certain level of R&D, with additional incentives for increased research spending. A few regimes offer tax benefits for capital investments in R&D, while most offer incentives for operational costs, i.e., wages, supplies and contractor fees. Moreover, many countries offer enhanced tax incentives for start-up companies.

This global survey summarizes and compares R&D tax incentives available in the countries typically considered as viable locations for conducting R&D.

Many countries offer tax incentives to encourage research and development efforts leading to increased domestic business growth.

The tax rates and research incentives described below are effective as of October 2013, but are subject to change.

Horizon 2020

Since the last edition of this Global Survey was released there was a substancial increase in the budget for funding research, innovation and education under Horizon 2020 -- EU's new program for research and innovation.

Horizon 2020 will support the development of Key Enabling Technologies, which include:

- Information and communication technologies;
- Nanotechnologies;
- Advanced materials;
- Advanced manufacturing and processing;
- Biotechnology;
- Space.

In addition, Horizon 2020 will fund projects focussed 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;
- Climate action, resource efficiency and raw materials.

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Australia

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Australia provides a tax credit equal to 40% or 45% of eligible R&D expenditure, with any excess refundable to small and medium sized entities.

Background

Australia's corporate income tax rate is currently 30% but the new Coalition government proposes to reduce this to 28.5% from 1 July 2015. However large companies will also pay a 1.5% paid parental leave levy of 1.5% on taxable income in excess of $5M from the same date.

Nature of incentives

Australia's corporate income tax regime includes R&D tax incentives. For tax years ending on or before 30 June 2011, this took the form of enhanced deductions and refunds for smaller companies under certain circumstances.

For tax years commencing on or after 1 July 2011, a two-tier volume-based R&D tax credit system replaced the previous regime. The R&D regime currently takes the form of either:

- A refundable tax credit equal to 45% of the eligible R&D expenditures (but the expenditures are not deductible) where the eligible entity has gross receipts of less than $20M and is not controlled by exempt entities, or
- A 40% non-refundable tax credit for all other eligible entities.

Connected and affiliated entities are taken into account in determining the $20M threshold.

Any excess non-refundable R&D tax credits can be carried forward indefinitely, but not carried back. The ability to use carried forward R&D tax credits is subject to ownership or same business continuity tests and could be reduced by certain amounts of non-taxable income.

There are mechanisms to reduce the additional incentive component of the R&D tax credits where the eligible entity receives a government grant to recoup expenditure on which a tax credit has been received. A reduction may also occur where R&D activities result in the output of a tangible product that is applied for the entity's own use or supplied to another entity.

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 residency tie-breaker article of a Double Tax Agreement (DTA) can be considered an eligible R&D entity. An Australian permanent establishment under a DTA can also be an eligible R&D entity.

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

Core R&D activities will generally be experimental activities whose outcome cannot be determined in advance based on current knowledge, information and experience, and is conducted for the purpose of generating new knowledge. Certain activities are specifically excluded from being core activities, including exploration activities and software development for the dominant purpose of internal business administration. These exclusions can still qualify as supporting R&D activities.

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

IP and jurisdictional restrictions

For tax years commencing on or after July 1, 2011 intellectual property rights do not generally need to be retained in Australia.

Activities can be physically performed outside Australia and remain eligible for benefits only if approved by the government by way of an advance finding during the year of project commencement. Such approval will be granted if the Australian core activities could not be completed without the overseas activities, and the activities are unable to be conducted in Australia for defined reasons, including: (i) no access to facilities or expertise in Australia, (ii) require access to population of living objects not available in Australia, or (iii) require access to geographical or geological features not available in Australia. At least 50% of total costs of the project across all project years must be incurred in Australia.

Other concerns

Taxpayers must file the Application for Registration of R&D Activities with Innovation Australia within 10 months of the tax year end (even if an advance finding has been obtained). The

R&D tax credits are then claimed on the taxpayer's annual company income tax return.

Subject to the enactment of legislation it is proposed that refundable credits can be claimed on a quarterly basis from 1 January 2014.

Austria

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Background

Austria's corporate tax rate is 25%. Austria provides a cash back incentive for R&D activities.

Nature of incentives

The incentive available for research intensive entities includes a 10% volume-based tax credit on all qualified R&D related expenditures, even if the company is in a tax loss or low profit position. This benefit is refundable to the extent the credit exceeds the amount of the tax liabilities.

Since 1 January 2012, the cost basis for subcontracted research expenditures is limited to €1M annually; the tax benefit can therefore amount to a maximum of €100K.

Grants and subsidies received by the taxpayer that are exempt from Austrian corporate income tax reduce the base for the research credit.

For income from royalty payments related to self-developed intellectual properties or capital gains from sale of self-developed intellectual properties, the tax rate is reduced by half for individual taxpayers (not for corporations).

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. The definition of research includes basic and applied research, as well as experimental development within the meaning of the Organisation for Economic Co-operation and Development (OECD) Frascati Manual. Thus, software development can also be a qualified activity.

Qualified R&D activity, in general, is 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 of new or fundamentally improved materials, devices, products, or processes.

Qualifying activities must be conducted systematically with the purpose of increasing knowledge and/or developing new applications.

Qualifying expenditures include: capital investment, finance costs, staff costs, overhead, leasing costs, and subcontractor fees.

Austria's refundable tax credit must be approved by the Austrian Research Promotion Organization.

When subcontracted R&D is performed, the principal (the party funding the research) may opt to claim the qualifying expenses instead of the subcontractor. The subcontractor must be a qualifying EU/EEC institution and unrelated to the principal. The subcontractor fees cannot exceed €1M annually (resulting in a maximum benefit of €100K.) as qualified research expenses for computing the 10% research credit.

IP and jurisdictional restrictions

Approval from the Austrian Research Promotion Organization is required for research credits relating to tax years beginning on or after 1 January 2012. The application for approval is due after the end of the fiscal year in which the tax credits would apply, and has to be filed electronically. Only after the approval has been requested, can the taxpayer apply for the credits with the annual tax return. However, the approval does not have to be received before the taxpayer can claim the credit on the tax return.

When approved, a special notice of assessment is issued confirming that the legal requirements for credit eligibility are fulfilled with respect to a particular R&D endeavour.

Alternatively, the taxpayer can seek a pre-approval that covers future R&D endeavours encompassing the actual and additionally up to three fiscal years. Only if this is the case, a fee of €1K is charged in order to participate in the pre-approval process.

There is no need for existing patent protection of the result of the R&D activities or proof of the success of the R&D work. No restrictions are imposed upon the location of the IP.

Research activities have to be conducted in Austria. Subcontracted research must follow management and direction from an Austrian business or branch or permanent establishment in Austria. Further, the subcontractor has to be based within EU/EEA.

Other concerns

Attractive grant programs exist for companies in the Materials and Production, Energy and Environment, Life Sciences, Information and Communication Technology, Mobility, Safety and Security, as well as for Human Resources sectors.

Austria is an active member of the European Research Area, as well as a proactive partner in bilateral R&D endeavours, e.g. with the USA, China, Japan, Russia and South Korea.

Belgium

Background

Belgium's general corporate tax rate is 33.99%.

Nature of incentives

- R&D Tax Credit and Investment Deduction: Beginning on 1 January 2013, taxpayer may elect a 14.5% one-time deduction of all R&D Investments recorded on the balance sheet (tangible and intangible) or 21.5% of the total depreciation amount for the same R&D Investments (i.e., taxpayer computes the depreciation amount and multiplies this amount by 21.5%). This deduction is in addition to the standard depreciation deduction for such expenses; resulting in a super deduction of 121.5% of the amount of depreciation for capital assets, etc. used during the research process. Excess deductions may be carried forward indefinitely or converted into a tax credit refundable after 5 years. The above rates are reviewed annually.
- Patent Income Deduction (PID): Allows taxpayers to deduct 80% of their qualifying patent income from their taxable income (resulting in a 6.8% maximum effective tax rate).
- Partial Wage Tax Exemption: 80% withholding exemption granted to the company for wages paid to qualifying researchers working on R&D projects. Eligible employees must have masters or above degree in the scientific area. This incentive allows a 20%-25% decrease of the salary cost for a researcher dedicated to working on qualifying R&D activities. On some occasions, the diploma conditions are not imposed i.e. Young Innovation Company or University Research Agreement. There are also exemptions for expatriates working in R&D.
- Accelerated depreciation: assets used in R&D could be depreciated in three years.

Additionally, companies may be granted temporary "innovation premiums" for their employees, thereby eliminating tax and social security withholding requirements.

Cash grants are available to R&D intensive entities from the regional government. The grants for research projects can amount up to 80% of total project expenditures depending on the location of the project, the types of R&D activities, and the type of funding instrument. The regional cash grants are usually not taxable. There are specific wage tax exemptions that apply to night workers or shift works independently of R&D activities.

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Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

In order to receive the deduction or claim the benefit, the taxpayer must certify that the R&D investments are made in order to develop products/ services that are:

- Innovative in the Belgian market; and,
- Have no negative environmental impact (or, if there is an environmental impact, the taxpayer has taken the steps necessary to mitigate such impact).

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

Patent income deductions, super deductions and wage tax exemptions are just a few of the incentives offered.

IP and jurisdictional restrictions

The R&D Tax Credit and Investment Deduction benefit may be claimed for R&D work performed outside Belgium; however the claimant must retain some associated IP in Belgium to receive the tax benefit.

There's no IP ownership requirement for the Partial Wage Tax Exemption.

PID is applicable to patents developed by the Belgian entity, and is also applicable to improvements to existing patents owned by other legal entities.

Other concerns

Taxpayer must file a claim for environmental certification through the regional authorities by 31 March and be awarded the certificate from the region in which the qualified activity occurs.

Beginning January 2014, the Partial Wage Tax Exemption will only be applicable to new projects which have been submitted for notification to the Belgium authorities. A transition period until 31 December 2014 is foreseen to implement this policy for the projects which were already active in 2013.

Brazil

Background

Brazil's general corporate tax rate is 34%. All incentives are available for companies that operate under the Lucro Real tax regime.

Nature of incentives

- Super Deduction: Super deduction equal to 160% of the total R&D expenditures.
- Enhanced Super Deduction: If the entity increases the amount of researchers exclusively dedicated to research projects by up to 5% in a given year, super deduction increases to 170%; and if headcount increases more than 5% in a given year, the super deduction increases to 180% of the qualified expenses. Employees who relocated internally to work exclusively in research projects may also be considered in the increase of the number of researchers.
- Enhanced Super Deduction for Patents: An extra 20% deduction is allowed for the qualifying costs incurred in developing a patent, but the super deduction is only allowed when a patent is registered. Since 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 carried back.
- Depreciation/Amortization: For corporate income tax (CIT 34%) purposes only, 100% depreciation is allowed in the year of acquisition for new machinery, equipment, and instruments exclusively dedicated to research and development, as well as 100% amortization for intangibles used in research and development.

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. Additionally, software development qualifies as an R&D activity as long as it is undertaken to advance scientific or technical goals.

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Brazil offers super-deductions for research performed in Brazil and reduced excise tax for equipment used in research.

R&D expenditures include wages, salaries, and certain payments to third parties (e.g., laboratory tests, etc.), directly attributable to the conduct of qualified R&D activities.

During 2011, Brazilian Internal Revenue Service (IRS) released a normative ruling addressing the following issues:

- Professionals Partially Dedicated to R&D - Taxpayer needs to adjust the employment contracts for the employees that are partially dedicated to research projects, in order to expressly indicate that such employees work as researchers in technological innovation projects. If this procedure is not adopted by the company, the expenses connected with the employees that have partial dedication to R&D should not be included in the R&D tax incentive calculation.
- R&D Subcontracting - Tax incentives for subcontracting expenses are limited to:
  - Contract with national universities, research institutions or independent inventors, as long as the hiring company assumes the responsibility, enterprise risk management and control of project expenditures.
  - Payments made to small businesses for the implementation of research projects, even if the subcontracted party participates on the profitability of the projects' final economic results.
  - Companies are allowed to claim as part of the qualified expenses amounts incurred for contracted technical services, such as laboratory trials and testing, as long as the taxpayer does not participate in the execution of the services (even if partially).
- Supporting Services, Indirect Services and other Non-qualifying costs - Expenses related to supporting administrative and indirect services are not eligible, even if they can be associated with a research project. These non-eligible 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 expenditures incurred within Brazil are eligible for the incentives (except for IPI reduction benefit noted below). The resulting IP does not have to be held within Brazil.

Other concerns

Companies must have a tax clearance certificate, regarding the whole calendar year in which the incentive is taken, to qualify for the super deduction.

Specific accounting controls are also required, i.e., the chart of accounts should present specific accounts indicating the R&D expenditures. Recent understandings from Brazilian IRS included the need for an analytical control of costs and expenses for each R&D project, using consistent and standardized criteria throughout the calendar year, and recording in a detailed and individualized way all the expenditures incurred.

Brazil also provides the following additional research incentives:

- Equipment, machinery, and tools exclusively dedicated to R&D can be deducted when the expense is paid or incurred. However if assets initially acquired for the use in R&D activities are later sold or destined to other activities, the expense paid or incurred should become taxable when they are sold or transferred to another area (non-R&D related).
- Equipment, machinery, and tools acquired exclusively for R&D by IT companies, as well as companies with automation activities, that benefit from specific IPI Reduction (see below), can take a super deduction on the cost of such equipment.
- IPI Reduction (federal excise tax): Equipment, machinery, and tools dedicated to 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.

Canada

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While Canada offers one of the most lucrative research credits in the world, recent changes to the law curtail incentives.

Background

Federal and provincial corporate tax rate (combined) on business income is between 11% and 31% in 2013 (rate is dependent upon the size of the corporation, ownership, and provincial jurisdiction).

The R&D credit is legislated in the Income Tax Act and administered by the Canada Revenue Agency (CRA). Claims must be filed using prescribed forms and strict deadlines apply (18 months after the end of the taxation year, no extensions).

As described below, changes to the program as announced in the 2012 federal budget have been enacted, and are effective January 1, 2013 with further changes in 2014. The government has also taken steps to enhance direct funding through grants with new programs supporting selected industries and regions.

Nature of incentives

- SR&ED Deductions (Scientific Research and Experimental Development): Immediate deduction for all qualified current and capital expenditures prior to 2014. Expenditures may be carried forward indefinitely to be deducted in future years. Some restrictions apply.
- SR&ED Investment Tax Credit: 20% federal tax credit (15% for tax years ending after 2013) for all qualifying R&D costs for eligible activities carried on in Canada by a corporation, partnership, individual or trust. The credits can be used to offset federal tax liabilities. Unused credits can be carried forward 20 years (10 years in some provincial jurisdictions) and carried back 3 years. The credit rate is 35% for small Canadian-controlled private corporations (on first $3M of expenditures per year, see below). This 35% credit is 100% refundable for non-capital related expenditures; 40% refundable for capital expenditures.
- Provincial SR&ED Incentives: Tax credits ranging from 4.5% to 37.5% depending upon the provincial jurisdiction. Many provincial jurisdictions offer refundable or partially refundable credits.
- Special federal and provincial tax credits exist for selected industries, including: IT, media, video games, and film as well as industries involved in the development of new technologies that address issues of climate change, clean air, and water and soil quality.
- Enhanced provincial tax credits exist in some jurisdictions for research conducted by universities, research centres, research consortia and private partnership.
- All credits are taxable to the claimant. Federal credits are taxed in the year following the year in which they are used to reduce taxes or generate a refund. Provincial taxes are taxable in the year that the claimed expenditures are incurred.

Refundable Credits: Federal SR&ED investment tax credits are available to small Canadian-controlled private corporations on the first $3M of expenditures each year. The corporate group of companies must have less than $800K of taxable income and less than $50M in taxable capital in the prior year to be eligible. Federal refunds are not available for foreign controlled or public corporations; although some provincial credits are fully refundable to all corporations.

There is an annual cap on refundable credits, as noted above; however, there is no cap on the total amount of non-refundable credits available through R&D incentives.

Eligible industries and qualifying costs

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

Eligible R&D expenses include wages, materials (consumed or transformed), 80% of subcontracted R&D (100% prior to 2013), overhead (or a proxy amount in lieu of overhead – see below for changes to proxy amounts), lease payments (excluded for lease payments incurred after 2013), payments to universities, colleges, and consortia, and certain capital expenditures (excluded for property acquired after 2013). There are special computation rules for contract R&D expenses to prevent duplicate claims by Canadian companies, whether related or not.

Changes to innovation support in Canada

The 2012 federal budget introduced a number of changes to the program which took effect beginning 1 January 2013:

- Reduce the 20% SR&ED investment tax credit rate to 15% for taxation years ending after 2013.
- Exclude capital expenditures from SR&ED deductions and investment tax credits for property acquired after 2013.
- Exclude lease payments incurred after 2013.
- Exclude shared-use equipment for capital expenditure incurred after 2013.
- Reduce the prescribed proxy amount for overhead expenditures from 65% of salary cost of directly engaged labour to
  - 60% for 2013
  - 55% for years after 2013
- Limit qualifying expenditures to arm's length contractors to 80% of the contract payment for expenditures incurred after 31 December 2012.
- Exclude from qualifying expenditures incurred after 31 December 2013, any amount paid to an arm's length contractor in respect of a capital expenditure made to fulfil an SR&ED contract.

IP and jurisdictional restrictions

There are no restrictions on the location of IP, although the Canadian company must have the right to exploit the results of sub-contracted research. Generally research must be undertaken in Canada; however, 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.

Some provinces offer tax refunds for revenue earned from patents. These refunds apply to provincial taxes on income earned from assigning, licencing a qualified patent to a non-resident. Income derived from providing goods and services related to a qualified patent are also eligible.

Other concerns

Taxpayers must submit extremely detailed information on prescribed Form T661 and T2 Schedule 31 in order to claim the federal R&D credit. The deadline for filing research credits is 18 months after the end of the company's tax year. No extensions to this deadline are available and incomplete claims will be rejected. The form T661 requests detailed information for each eligible project (pre-approval is not required). The T661 form is updated from time to time and the most current version must always be used; the new T661 that was released in October 2013 requires disclosure of claim preparer information. There is a penalty of $1,000 for failure to comply with these new rules which are proposed to come into effect 1 January 2014, subject to enactment of the legislation.

Provincial credit forms are also required for each jurisdiction of the claim.

Documentation must be maintained to support the claim in the event of an audit by the tax authorities. The tax authorities may conduct a review of the technical eligibility and the expenditures claimed. Refundable claims are to be reviewed within 120 days of receipt by the CRA of a complete claim (240 days for an amended return). Non-refundable claims should be reviewed within 365 days.

China

Background

China offers a host of tax and other incentives. The corporate tax rate is 25%. The R&D incentives are offered in the form of income tax deductions and reductions in enterprise income tax rates.

Nature of incentives

- Super deduction: Tax deduction equal to 150% of the qualifying R&D expenses.
- Rate Reduction: Reduced 15% corporate tax rate for companies granted High and New Technology Enterprise (HNTE) status. HNTE status must be applied for and renewed every 3 years.
- The reduced rate of 15% also applies to qualified Technology Advanced Service Enterprises in designated cities with over 50% revenue derived from providing qualified technology advanced services outsourced by foreign entities. (This incentive has been extended through 31 December 2018.)
- Tax Exemption: VAT exemption/Zero-rated treatment for certain R&D services performed for foreign entities.

Tax incentives for technology/software companies:

- The first RMB 5M of income from qualified technology transfers are exempt from the Enterprise Income Tax (EIT).
- Any income from technology transfers in excess of RMB 5M is taxed at a 50% reduced EIT rate.
- Newly established software companies are often granted tax holidays.
- Additionally, taxable software companies may also be granted a business tax exemption on qualified income.
- Qualified foreign invested R&D centres may enjoy exemption on import duty, VAT and consumption tax on import of equipment and other R&D assets. (This incentive is available through 31 December 2015.)
- Qualified foreign invested R&D centres and domestic R&D institutions may claim a refund of VAT paid on the purchase of Chinese domestic equipment. (This incentive is available through 31 December 2015.)
- Qualified software companies may enjoy exemption of import duty on self-used equipment and materials.

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China offers a 150% super deduction for eligible research and development expenditures.

- Qualified private non-enterprise technology companies may enjoy exemption of import duty, VAT and consumption tax on import of items for scientific R&D use.
- Qualified newly established HNTEs in special zones are often granted a tax holiday.
- HNTE companies are eligible for the 150% super-deduction of qualified R&D expenses in addition to the reduced corporate tax rate.

Tax losses attributable to R&D super deduction claims can be carried forward up to 5 years.

Eligible industries and qualifying costs

The Chinese government provides the following list of eight state encouraged industries that are considered in awarding HNTE status:

- Electronic information technology
- Biological & new medical technology
- Aviation & space technology
- New materials technology
- New energy & energy conservation technology
- High technology service industry
- Resources & environmental technology
- Transformation of traditional industries through high-new technology

Qualified activities include development of new technology, new products, and new production techniques. Qualifying expenditures include staff costs, direct costs, supplies, depreciation and amortization, design costs, equipment installation costs, intangible asset amortization, and contracted R&D costs.

IP and jurisdictional restrictions

Less than 40% of the R&D expenses (including subcontracting R&D costs) qualifying for the HNTE incentive may occur outside China. The IP must be located in China for HNTE.

In order for the authorities to grant super deduction approval, they may consider whether IP will be retained in China; however, this is not required by law.

Croatia

Background

Corporate income tax in Croatia is 20%.

Nature of incentives

The research incentive allows super deductions against corporate income tax for eligible expenses related to R&D projects. The super deduction depends on the type of research activities:

- Fundamental research project -- 250% super deduction
- Applied research projects – 225% super deduction
- Developmental research projects – 200% super deduction
- Technical feasibility studies – 175% super deduction

Qualified research activities include the following:

- *Fundamental research* includes all activities intended at expanding scientific knowledge and know-how (not linked with any industrial and/or commercial goals).
- *Applied research* includes all planned research or critical exploration with the aim to acquire new knowledge that may be used in the development of new products, production processes or services, or for significant improvements in the already existing products, production processes or services.
- *Developmental research* includes activities intended to convert the applied research results into plans, drawings or models for new, modified or improved products, production processes or services that are intended either for sale or use, including the manufacture of prototypes. In addition, development research may include conceptual planning and modelling of alternative products, production processes or services as well as the first demonstration or pilot projects, provided that those projects cannot be redesigned or used for industrial application purposes or commercially exploited. Development research does not include routine or regular alterations of products, production lines, production processes, existing services and other current activities, even though those alterations represent improvements.
- *Technical feasibility studies* includes activities performed prior to beginning an applied or developmental project with the goal of evaluating the existence of sufficient technical expertise to complete the project based on technical requirements.

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Croatia offers super deduction for qualified expenditures from 175% - 250%.

In case of loss generating company, incentive can be carried forward for five years.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. The criteria for qualified research are similar to the definition of R&D in the Frascatti Manual. Typically the research incentives are claimed in IT, pharmaceutical, chemical, manufacturing industries, and by banking/financial institutions. Eligible expenses include:

- Employee salaries directly involved in the research.
- Raw materials including packaging, spare parts, inventory used, energy consumed, materials and parts for maintenance of machine and equipment used directly for the research.
- Costs of contract services used during the research, such as engineers and scientists hired to develop and research technologies and projects.
- Depreciation of property, plant and equipment, in proportion to usage for the research through the project duration. Otherwise, no depreciation is allowed. This applies only to taxpayer’s own capital assets used for internal research activities.
- Depreciation for cost to buy patents or license fees of technologies used for the research activities.
- Other costs that are necessary for research and can be reasonably and consistently allocated directly to research, such as professional liability insurance, overhead cost to insure equipment and personnel, and rentals and membership fees for scientific organizations related to the research activity.

Filing requirements

An application form must be submitted to the Ministry of Science in order to gain approval for the specific qualified activities claimed by the taxpayer. The Ministry can down-grade the project to a lower ranking type of research (for example, from applied research to developmental research). *Application form must be submitted to the Ministry before the end of the financial year in which the project has started.*

IP and jurisdictional restrictions

There’s no restriction on the location of the research activities or the location of the IP.

Czech Republic

Background

The Czech Republic's corporate income tax rate is 19% in 2013. The Czech Republic offers a super deduction for costs incurred for qualified research activities.

Nature of incentives

- Super deduction: Deduction equal to 200% of the costs incurred during the implementation of research and development projects.
- Tax relief: 10 years of corporate income tax relief for investments in technological centres and strategic service centres under the amended Investment Incentives Act effective from July 2012.
- Other non-tax related R&D incentives: Cash grant programs for research and development including capital expenditure (CAPEX) investment or operational costs (OPEX).

R&D projects include projects in the form of experimental or theoretical works, design or drawing works, calculations, proposed technologies, or the making of a functional sample or a product prototype or its part.

If the super deduction cannot be utilized in the year it is claimed, then it can be carried forward and utilized within the next three taxable periods.

Eligible industries and qualifying costs

The basic criteria that distinguish research and development from other activities are the presence of a measurable element of novelty and clarification of research or technical uncertainties. The measurable element of novelty and research or technical uncertainties must be present even if the subject of the research is known in the industry, as long as the taxpayer can prove that it is materially or economically inaccessible to it, or unusable for another material or economic reason, or had no information on its existence at the time of dealing with the project. The criteria for qualified research are very similar to the definition of R&D in the Frascati Manual.

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

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Eligible R&D expenditures can be carried forward 3 years.

Qualified expenses include wages and salaries; depreciation of tangible movable property used in direct relation to the project; and, other operating expenses directly related to the project (i.e., travel reimbursements, materials, supplies, low value assets, expenses for books and magazines, electricity, heat, gas, telecommunications, and water and sewage rates). Subcontracted R&D services are not included as qualified expenses, with the exception of certification of R&D results. Future legislation plans to include R&D services provided by public universities and public research institutes as eligible expenses. The super deduction excludes expenses paid for through government and public subsidies.

IP and jurisdictional Restrictions

There are no IP registration requirements. Not all R&D activities must occur within the Czech Republic to qualify for a super deduction, but qualified expenses described above must be tax deductible expenses of the Czech taxpayer.

Other concerns

The taxpayer must compile a written "summary" document specifying the qualified activities before the start of the project. The summary is part of the mandatory internal documentation that must be completed prior to start of the project, but it's not required to be submitted to any government agencies. The summary typically includes: description and objectives of the project; project schedule and phases, project administrative process, project staffing, and project budgets.

France

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Background

General corporate tax rate is 34.43%.

France offers an R&D tax credit that is volume-based and can be carried forward for 3 years. To the extent the credit is not utilized within that 3-year window the taxpayer is entitled to a refund.

A temporary measure was enacted to enable taxpayers to get immediate refunds for any unutilized research credits for the period from 2005 to 2009. Since 2010, the research credits are subject to the 3-year utilization rule mentioned above, with an exception for SMEs, new companies, young innovative companies and companies facing financial issues – who are able to claim immediate refunds for any unutilized credits.

Nature of incentives

R&D expenses are deductible in the year in which they were incurred. Additionally, France offers an R&D credit:

- 30% of the first €100M of qualified R&D expenditures incurred during the tax year; plus, 5% of any amount in excess of the €100M threshold.
- Previously, new applicants benefited from increased rates (40% for the first year (subject to limitation), 35% for the second year (subject to limitation), and 30% thereafter.) The increased rates do not apply as of January 1, 2013.

France offers a host of other incentives aimed at encouraging the growth of R&D-intensive businesses including innovation grants and acceleration of depreciation deductions for fixed assets used in R&D activities; as well as a patent box.

Starting 1 January 2013, France implemented a new tax incentive called "Innovation Tax Credit" for downstream activities, such as expenditures for new prototypes or pilot assets. This incentive is only available to SMEs (companies with less than 250 employees and sales less than €50M). The tax credit rate is 20% and the amount of qualifying expenses is capped at €400K.

Revenues derived from licensing (also apply to net-revenues of sub-licenses of eligible IP rights starting 1 January 2011) or sale of patent or patentable technology are taxed at 15% reduced rate, with the requirement that the technology must have been owned by the French company for at least 2 years and the sale of the technology to related parties are excluded from the benefit of the 15% rate. Moreover, for the French licensee, the royalty fee is deductible at the 33.33% rate (unless the licensee does not exploit the IP rights effectively).

France offers generous research tax incentives

Eligible industries and qualifying costs

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

- Present a significant technological advancement when compared to the then current state of the art.
- Utilize the combined efforts of researchers, scientists and technologists.
- Is uncertain with regard to the anticipated outcome and includes complexity concerning the methodology itself.
- Require the usage of scientific methods/protocols to achieve results.

Generally, eligible expenses include the following: R&D staff expenses, general and administrative expenses, depreciation allowances for assets used for R&D activity in France, patent costs, contract costs, and costs of technological monitoring. Materials consumed in the research process do not qualify. The law also allows an estimate of general and administrative (G&A) expenses, but the formula for estimating such expenses was changed for expenses incurred on or after 1 January 2011. The new formula for eligible G&A expenses includes general and administrative expenses equal to 50% of all R&D staff expenses (previously 75%), and 75% of depreciation allowance of assets used in R&D activities in France (research equipment and facilities).

Since there is no at risk rule in France, research credits can be claimed for contractors performing research on the taxpayer's behalf on a time/materials basis. There are, however, new restrictions on contract research expenses effective January 1, 2011: First, there is a cap on private subcontracted expenses equal to 3 times the other qualifying expenses, before applying any other limits related to the subcontracting expenses computation (limit of €10M subcontracting expenses). Second, in the event the subcontractor and subcontracting entity are related, qualifying contract research is limited to €2M.

IP and jurisdictional restrictions

100% of the qualified activity must occur within the EU (as long as the expenditure is part of the company's tax base). There is no restriction on the location of any resulting IP.

Other concerns

The taxpayer can seek governmental pre-approval for projects; however, pre-approval is not required in order to benefit from any of these incentives. The pre-approval process was limited to projects that had not yet been initiated, but this process was expanded, effective 1 January 2013, to include projects that have already begun. Taxpayers can also apply for contractor certification by the Ministry of Research. Payments to certified contractors are treated as R&D expenditures. Since 2011 companies having R&D expenses higher than €100M have new documentation requirements. *Failure to comply with these requirements may result in penalties.* The French government is expected to issue changes to the research incentives in 2014.

Germany

Background

Germany's corporate tax rate is generally 15%, with a 5.5% solidarity surcharge levied on corporate income tax (i.e., effective tax burden of approximately 15.8%). Municipal trade tax is imposed at rates usually between 7% and 17% (average at 14%), with rates determined by municipalities. The effective combined income rate (i.e., corporate income tax, trade tax, solidarity surcharge) is on average 30%.

Nature of incentives

R&D incentives, mainly in the form of non-repayable cash grants, are awarded on a "per project" basis, usually for collaborative projects. There is no legal claim for R&D funding.

Grant rates averaged at 50% of eligible project costs. Higher rates may be possible for SMEs.

The selection criteria for eligible projects include:

- Level of innovation
- Level of technical risk
- Level of economic risk

R&D loans can be an alternative to R&D grants. R&D loans are not contingent on conducting R&D activities in a specific technology field and there are no application deadlines. R&D loans are provided under different governmental programs. For instance, the ERP Innovation Program offers 100% financing of eligible R&D project costs up to €5M.

R&D tax incentives are not yet offered. However, the introduction of such is on the political agenda.

Eligible industries and qualifying costs

Eligibility is not limited to particular industries. Companies in the following industries typically seek cash grants:

- Biotech and life sciences
- ICT (Information and Communications Technologies)
- Manufacturing
- Energy & utilities

However, some industries are usually excluded from eligibility:

- Banks and companies in financial services
- Insurance companies

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Germany offers cash grants for eligible R&D projects, but does not offer tax incentives.

Qualifying expenditures include: personnel costs, materials, overhead, subcontracts, amortization, and travel costs. Cash grants are generally disbursed to the business after costs have been incurred.

Qualified activities include:

- Fundamental research – experimental or theoretical work aimed at gaining new knowledge;
- Industrial research – research with a specific practical objective aimed at developing new products, processes, or services, or at improving existing ones; and
- Experimental research – research aimed at producing draft, plans, and prototypes.

IP and jurisdictional restrictions

R&D activities must be conducted and R&D costs must be incurred within Germany. The exploitation of project results, including IP, must, for the largest part, remain in Germany.

Other concerns

Attractive grant programs exist for projects related to energy efficiency, CO_2 reduction, and renewable energy. However, funding is not restricted solely to this sector.

Large projects require EU notification (generally above €7.5M).

Hungary

Background

Hungary's corporate tax rate is 10% for taxable income up to HUF500M, then 19% exceeding that limit.

Nature of incentives

- Super deduction: 200% super deduction for qualifying expenditures if the related R&D activities are carried out within the scope of the taxpayer's own business activities; which means activities that are performed with the taxpayer's own tools and employees, either for its own profit, at its own risk, or upon being contracted by another party. Furthermore, qualified activities include cooperative R&D activities performed based on an agreement with another party.
- Patent box: If IP is created as a result of the R&D, 50% of the gross amount of the royalty received (up to 50% of the profit before tax) may be deducted from the corporate income tax base upon the taxpayer's election.
- As of 1 January 2012, a capital gains tax exemption applies to supplement the existing patent box benefit. Under the new rules, the capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP is exempt from corporate income tax provided that:
    1. the company makes an election with the tax authorities within 60 days following the date of the IP acquisition, and
    2. the company holds the assets for at least one year before any subsequent sale.
- As a counterpart to the capital gains exemption, any capital loss realized on the sale of qualifying IP is not allowed for corporate income tax purposes. This benefit is available to any type of IP, and the IP itself does not have to be "new" and may have been generated previously by another company.
- Local business tax base reduction: The R&D costs can be deducted when computing the local business tax base.
- As of 2013, corporations employing researchers with academic grades or titles are relieved from paying social tax (27% on gross wages) and training fund contribution (1.5% on gross wages) up to a monthly gross income wage amount of HUF500K.
- As of 2014, R&D related expenses may be deductible from the corporate income tax base by any of the associated entities of the taxpayer. A taxpayer is entitled to apply the deduction as long as the associated entity provide the exact deductible amount and a statement that the expenses are directly attributable to the business activity of the associated entity.
- Refunds of R&D incentives are not available.

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Hungary provides a 200% super deduction and cash grants.

Eligible industries and qualifying costs

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

- Gross wage cost of new or existing R&D and/or marketing staff.
- Cost of new equipment.
- Cost of certain goods/materials/R&D services purchased from third parties.

IP and jurisdictional restrictions

There is no restriction on the location of IP.

Incentives are available to foreign entities without Permanent Establishment (PE) who subcontracts in Hungary which may provide favourable planning opportunities to multinational groups. Tax incentives can be claimed by Hungarian companies providing R&D services to a related foreign party.

Other concerns

R&D benefits can be claimed retrospectively within the statute of limitations. As of February 1, 2012, the legislature has developed a new R&D qualification procedure to claim research tax benefits and/or R&D cash grants. Under this new procedure, the Hungarian Intellectual Property Office (HIPO) will determine if the claim should be granted; and such determination is binding on the tax authority. In September 2012, a detailed guideline was published by the HIPO comprising the principles of classifying activities for R&D purposes.

Currently, the R&D qualification procedure is under review and taxpayer-favourable changes are expected.

Companies planning R&D projects, alone or in consortia, may also receive cash grants from Hungarian and EU sources.

India

Background

Corporate tax rate is 30% (plus applicable surcharge and education cess).

Nature of incentives

As of April 1, 2013 the incentives for conducting R&D include:

- A 200% super deduction for in-house R&D expenditures, including capital expenditures (other than land and buildings). The super deduction is limited to taxpayers in the business of bio-technology or manufacturing or producing products (other than products on the negative list such as alcoholic products, tobacco products, cosmetics, toothpaste, aerated waters using blended flavouring concentrates, confectionary, record players, projectors, office machines and apparatus, steel furniture, safes, latex foam, crown corks and caps for packaging). The R&D facility must be approved by the Department of Scientific and Industrial Research (DSIR) in order to qualify for super deductions. Currently the benefit is available until 31March 2017.
- 100% deduction for R&D expenses (other than land) related to the business that does not otherwise qualify for the above super deductions.
- A super deduction of 125% to 200% for payments made to prescribed entities carrying out research and development in India.
- A deduction of R&D employee salary and materials consumed within 3 years immediately preceding the commencement of the business.

There is no cap on the R&D benefits available in India.

The approval of expenditures for in-house research and development by a company for purposes of the 200% super deduction shall be subject to the following conditions:

- The R&D unit should be located in a separate earmarked area.
- The R&D unit should have exclusive manpower of its own.
- R&D expenses qualifying for the super deduction cannot be deducted under any other provision of the tax code.
- The facility cannot qualify if it is used exclusively for market research, sales promotion, quality control, testing, commercial production, style changes, routine data collection, or activities of like nature.

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- The company must maintain a separate account for each approved facility which shall be audited annually and a copy thereof shall be furnished to the Secretary of the DSIR by 31 October of each succeeding year.
- Assets acquired with respect to development of scientific research and development facilities shall not be disposed of without the approval of the Secretary of the DSIR.

Eligible industries and qualifying costs

- Qualifying expenditures include wages, supplies, utilities, and other expenses directly related to R&D. Specifically excluded expenses include general and administrative costs, depreciation, overheads, and allocated expenditures.
- Deduction for R&D expenditure shall be net of the grants/ gifts, donations, presents, payments/ sale realisation arising out of sale of R&D asset.

Expenses incurred in clinical drug trials qualify for research tax incentives only if pre-approved by the regulatory authority under any 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.

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 next eight years, but cannot be carried back to earlier years.

The Direct Taxes Code (DTC) is set to replace the existing income tax laws. The DTC is expected to continue the current 200% super deduction.

Ireland

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Background

Ireland's general corporate tax rate is 12.5%.

Ireland introduced significant modifications to its R&D tax credit regime effective for accounting periods beginning on or after 1 January 2009. All credits are computed on a group basis.

Nature of incentives

- Deduction: R&D expenses are currently deductible in the year incurred.
- Incremental credit: 25% incremental credit for all expenditures exceeding the "base amount." The base amount equals the total qualified expenditures incurred during 2003. Starting from January 1, 2012, the first €100K of R&D expenditures is not limited to the base amount, and the limit was increased to €200k in 2013. For periods starting on or after January 1, 2014, the amount has been increased to €300K. If the company did not exist in 2003 or it incurred no qualified expenditures in the first 12 month accounting period ending after January 1, 2003, the base amount is zero and the credit is available for all expenditures.
- R&D facilities credit: 25% credit for expenditures incurred for buildings or structures used in the conduct of qualified R&D activities (provided at least 35% of the building is used for qualified R&D over a 4-year period). There is no base calculation for the buildings credit.
- Credits received in relation to accounting periods starting after January 1, 2012, can be used by key R&D employees to use against their personal income tax liability. A number of restrictions apply, amongst which are that the individual cannot be a director (or be connected to the director) or have a material interest in the company; and the tax credit cannot result in the recipient's tax rate going below 23%.
- R&D grants are also offered.

Unused credits may be carried back to reduce the tax liability of the preceding accounting period (and carried forward indefinitely). If the credit is not fully utilized in the current and preceding tax period, the excess may be carried forward or refunded to the taxpayer through payments from the Revenue Commissioners (payments made over 3 years).

Credit refunds are subject to limitation. Refunds are limited to the greater of the total corporation tax paid by the company for the 10 years prior to the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the expenditures were incurred. For accounting periods starting after 22 June 2011, the refund limits have been increased to include the payroll liabilities of the immediately preceding accounting period, subject to certain restrictions relating to refunds in prior years.

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. Generally, four categories of activity qualify for the credit:

- Natural sciences
- Engineering & technology
- Medical science: basic medicine, clinical medicine, or health sciences
- Agricultural sciences

Qualifying expenditures include royalties, expenses deductible for trading purposes (wages and supplies), plant and machinery entitled to capital allowances, revenue and capital expenditures on scientific research, and buildings subject to capital allowances. Contracted research costs up to a limit of 10% of total qualifying expenditures on research and development activities in any one year qualify under the tax credit scheme. This applies where the subcontractor carrying out the research and development is unrelated to the company who paid for the research. 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. Where the R&D activities are contracted to a university or institute, the limit is 5% of the company's R&D expenditures in the period. For periods starting on or after 1 January 2014, it is proposed that the limit will be the greater of €100K, or 15% to third party subcontracts and 5% to Universities. (Previously, the subcontracting limit is the greater of €100K, or the 10% to third party and 5% to Universities.)

Other than the limitations due to subcontracted research above, a company is able to claim tax credits irrespective of whether it has received funding from a customer (including related entities) to carry out the research activities. However grants received towards qualifying R&D expenditure must be deducted from the costs included in a claim.

IP and jurisdictional restrictions

R&D activities must occur within Ireland or the European Economic Area (EEA). The credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted.

The resulting IP does not have to reside within Ireland. There's a potential minimum 2.5% effective corporate tax rate on IP income (12.5% corporate tax rate on the net profit, which can result in a very low overall effective tax rate (20% x 12.5% = 2.5% ETR).

There is also a stamp duty exemption available for IP meeting the definition as per S101 SDCA 99.

Other concerns

No governmental pre-approval is required.

Credit must be claimed within 12 months after the end of the accounting period in which the expenditure was incurred.

Israel

Background

Israel’s corporate tax rate is 25% of business income. The Office of the Chief Scientist (OCS) of the Ministry of Industry Trade and Labor implements the government's policy encouraging and supporting industrial research and development. They are responsible for promoting industrial R&D that is likely to lead to new export products. The following incentives are available only if approved by the OSC after applying the following criteria: proven technological skill of the applicant, plan to implement the project in Israel (unless exempted by the research committee of the OCS), and meet the high technological innovation standard.

Nature of incentives

Alternative tax program:

- Tax benefits are given to two kinds of companies; Companies located in Priority Area A, which are eligible for a lower tax rate of 7% in 2013-2014 and 6% for years after 2014. Companies that are not located in Priority Area A are eligible for a lower tax rate of 12.5% in 2013-2014, and 12% from 2015 onwards.
- If the company pays dividends during a tax year in which the complete exemption is effective, the dividends are taxed at 15% and any exempted taxes become immediately payable.
- Companies located in Priority Area A may also qualify for grants for investing in their manufacturing facilities. Grants are distributed by the Investment Center at the rate of 20% out of the total investment.

Strategic program:

- The program is intended for large multi-national companies whose annual gross receipts exceed NIS20BN, invest a minimum of NIS100M in R&D projects, and hire at least 250 new employees.
- Fulfilling the above requirements will allow the companies to use a reduced tax rate of 5% in Priority Area A and 8% in areas that are not Priority Area A.

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Companies must apply to the Office of the Chief Scientist of the Ministry of Industry Trade and Labor for tax exemptions, reduced tax rates and cash grants.

Eligible industries and qualifying costs

Companies engaging in qualified R&D activities in the following industries are generally eligible for R&D incentives:

- Pharmaceuticals
- Software & hardware development
- Energy & utilities

Qualifying expenditures generally include in-house labor costs, capital investments, supplies, overhead, and contract costs.

The Office of the Chief Scientist’s main program, the R&D Fund, supports R&D projects in Israel by offering conditional grants of up to 50% of the approved R&D expenditure, and up to 60% in Priority Area A. If the R&D project is successful, the company must repay the grant through royalty payments.

Israel also offers the following:

- Special benefits for selected fields: Traditional industries such as food & beverage, textile, print, metal, and plastic, and non-traditional industries such as cyber security, space industry, and alternative fuels. There are also special benefits for start-up and new companies.
- A large corporation (over NIS100M annual taxable income) establishing R&D centers in Priority Areas in Israel will be granted up to 60% of the approved R&D expenses. The corporation must invest a cumulative amount of at least NIS60M in a period of 24 to 36 months.
- A multinational corporation (over $2B of annual revenues) investing (money or assistance) in R&D projects may be entitled to joint ownership in IP with the Israeli company.
- The MAGNET program sponsors innovative generic industry-oriented technologies, through synergetic collaboration between industrial companies and academic research groups.
- Technological incubators that provide grants of up to 85% of approved expenses for nascent companies to develop 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 the approved expenses for a maximum of NIS50K for each project.

- Israeli companies can apply for grants in the European Commissions' Seventh Framework Programme (FP7), which is the main instrument for funding research and development activities, covering almost all scientific disciplines.
- Israel is participating in the EUREKA funding platform, which is the world’s largest program promoting industrial innovation, aiding and supporting industrial R&D projects aimed at developing new products and bringing them to the market.
- Bi-national funds and bi-lateral agreements for competitive R&D enable joint R&D programs with foreign counterparts worldwide.

IP and jurisdictional restrictions

Restrictions are unique to each grant program.

R&D activities must occur in Israel. The Israeli company must incur the R&D related expenditures.

The resulting IP does not have to reside within Israel, though location is considered in the granting process.

Other concerns

Generally, R&D expenses are deducted in the year incurred, but some expenses are deducted in instalments over 3 years.

Italy

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Background

Italy's corporate tax rate (IRES) is 27.5% and Regional Tax on Productive Activities (IRAP) standard rate is 3.9% (rate depends upon the Region and the industry).

Nature of incentives

- New R&D tax credit: it is available for Fiscal Years 2014 through 2016 and covers up to 50% of the incremental eligible R&D expenses, and a maximum €2,5M of annual tax credit for each company. All the companies (notwithstanding their legal status), with annual revenue below €500M could be eligible.
- The New Fund for Sustainable Growth provides cash grants and subsidized loans for projects of strategic importance to the Italian economic system, strengthening the productive structure of the country and promoting the international presence of the Italian enterprises to attract foreign investors. All the measures will be strongly anchored to the three pillars of Horizon 2020 and available funding could reach €600M.
- "FIRST" fund: With a scheme budget of more than €80M FIRST is the new fund for investment in R&D activities managed by the Ministry of University and Research (MIUR) and the Ministry of Economics and Finance (MISE). This entered into force in May 2013 and it will finance R&D activities through periodical calls that will cover a percentage of the eligible expenses, like labor costs, lands and buildings, subcontracted R&D activities and the general expenses.
- Tax relief for investments in "R&D Intensive Start-up companies" (IST): IST are companies with the main goal of developing and producing innovative and technologically advanced products or services. For fiscal years 2013 through 2016, corporations investing in an IST can have an immediate deduction equal to 20% of the invested amount (the maximum eligible investment is equal to €1.8M per year). Individuals investing in an IST have a 19% tax credit for 2013, 2014, 2015 and 2016 (the annual maximum investments is €500K per year).
- 35% tax credit for hiring researchers: A 35% tax credit is available (for fiscal years 2012 forward) for total labor cost incurred by companies hiring qualifying researchers. Eligible employees are those with a university degree or a Ph.D. (researchers without a Ph.D. must be employed only in R&D activities). Researchers must be employed by the company for at least 3 years (the limit is 2 years for Small Medium Enterprises) and the credit is subject to a cap of €200K per company annually. There are filing requirements that must be met to claim this credit – which can be applied to offset Corporate Income Tax, Regional Tax on Productive Activities, VAT, and withholding tax liabilities.
- Wages of employees involved in R&D activities are fully deductible for local income tax (IRAP) purpose (while generally, wages are not deductible for IRAP purposes).

A wide range of regional cash grants are available for R&D intensive entities, but the nature of the grants and their availability depends upon the region and the size of the company.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Qualified activities include basic research, applied research and development activities. Eligible expenses include:

- The labor costs of employees performing R&D activities;
- The depreciation expenses related to machineries and instruments utilized in R&D activities (with a minimum per unit cost of €2K);
- The costs for R&D activities performed by universities or research institutions;
- Third party contractual research;
- The cost of purchased technical knowledge and patents.

Activities and expenses related to ordinary or periodical modification for implement production lines, manufacturing processes, existing services, and other operations in progress are not eligible for the tax credit. The only exception would be if the above mentioned activities results in new patents.

For fiscal years 2014 through 2016, Italy offers a new R&D tax credit.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on intellectual property.

The IST must have its principal of business in Italy; however, the activities are not limited to Italy.

Other concerns

The Ministry of Economic Development and the Italian Revenue Agency are responsible for reviewing the Company's claim for the tax credit. The credit claim must be documented and certified by the corporate auditors, an independent auditor or an audit firm. This certification must be attached to the annual financial statement and the costs incurred for certification are eligible for the tax credit up to € 5,000

To obtain the "IST" status, the start-up must meet several requirements including that the R&D expenses must at least equal to 15% of total revenues or total costs.

To deduct wages of employees involved in R&D activities for IRAP purposes, the Italian Tax Authority requires a report to certify the expenses.

The funds of the New Fund for Sustainable Growth will be managed by the Minister of Economic Development.

A new tax credit for all qualifying R&D is under discussion and, if approved, this new incentive scheme will be in force for fiscal years 2014 through 2016. Potentially it will cover up to 50% of the eligible R&D expenses, calculated on incremental basis and with a minimum of €50K up to €2.5M tax credit for each company per year.

Japan

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Japan offers separate credits for Small-and-Medium Enterprises and large companies, as well as an additional credit for entities of all sizes.

Background

Japan's general national corporate tax rate is approximately, 28% for fiscal periods beginning on or after 1 April 2012, and this will be reduced to 25.5% for fiscal periods beginning on or after 1 April 2015 (the rate is 30% for periods beginning before 1 April 2012). However, other local corporate tax rates apply when calculating the total corporate tax liability of a company, which is approximately 38% for fiscal periods beginning on or after 1 April 2012, reducing to approximately 36% for periods beginning on or after 1 April 2015. Previously the rate was approximately 41%. The Japanese R&D tax incentives are incremental and volume-based. A special non-refundable tax credit is extended to companies that have increased their research and development expenses.

Nature of incentives

Volume-based credits: Small-and-Medium-Enterprises (SME): SME (Companies whose capital does not exceed JPY 100M, excluding a SME held by a large company/companies, whose capital exceeds JPY 100M):

- A credit of 12% of total R&D expenditures.
- The tax credit is limited to 20% of the company's national corporate income tax liability before the credit is applied. The 20% limitation applies for fiscal periods beginning on or after 1 April 2012. Previously the limitation was 30% for the fiscal years beginning on or after April 1, 2009, up to March 31, 2012.

Large companies:

- A credit of 8% to 10% of total R&D expenditures.
- The tax credit limitation is the same as for SMEs as outlined above.

Additional incremental credits (for both SME & large companies):

Either:

Where the current period R&D expenditures exceed: (i) the annual average of the R&D expenditures for the 3 preceding fiscal years; and, (ii) the highest annual R&D expenditure for the previous 2 fiscal years, then the company may claim 5% of the incremental R&D expenditures (i.e., the current year expenditure less the amount in (i));

or

Where the current period R&D expenditure exceeds 10% of the average annual sales for the 4 most recent preceding fiscal years (including the current year), the company is eligible for a credit calculated using the following formula: (R&D expenditure less [Average Annual Sales x 10%]) multiplied by the R&D ratio (reduced by 10%), multiplied by 20%. The R&D Ratio is the amount of current year R&D expenses divided by average annual sales for the 4 most recent preceding fiscal years (including the current tax year).

The tax credit is limited to 10% of the company's national corporate income tax liability before the credit is applied. The additional tax credit is available for fiscal years commencing on or after 1 April 2008 through 31 March 2014.

The R&D tax credit is available to blue tax return filers. Blue form tax return status is obtained by submitting an application form to the appropriate tax office. Furthermore, there are record keeping substantiation requirements applicable under the corporate tax law.

Another R&D credit system is applicable for a company conducting R&D jointly with a qualified R&D institution (e.g., designated universities).

Generally, unused R&D tax credits may be carried forward 1 year. The unused R&D tax credits for the fiscal years beginning on or after 1 April 2009 through 31 March 2010 may be carried forward up to 3 years. Research credits for fiscal years beginning on or after 1 April 2010 through 31 March 2011 may be carried forward 2 years.

Tax incentive for research centers

A tax incentive has been introduced for Japanese entities that are exclusively engaged in R&D activities. This incentive cannot be claimed in conjunction with the R&D tax credit. This incentive permits a qualifying entity to deduct 20% of its income that is attributable to the approved business activities for the first 5 years of receiving the research center designation.

Eligible industries and qualifying costs

Research credits are not limited to any specific industry, though the activity must be technological and scientific in nature. Consequently, research conducted in non-technical fields will generally not qualify for the research credit.

The expenses must be borne by the Japanese entity; if the funding is from another party (e.g. Government agencies, customers, suppliers, etc.), then the R&D tax benefit is not available for those funded expenses.

To qualify for the credit, the expenses must be incurred in order to manufacture products, or to improve, design, formulate, or invent techniques.

Qualifying expenditures include in-house labor costs, supplies, overhead, depreciation on fixed assets, and contract costs. Generally, salaries mean the amount paid to employees who devote 100% of their time to R&D, though recent interpretations permit segregation of activities if clearly documented. Labor costs relating to performing qualifying activities may be allowable for R&D credit purposes, to the extent that 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 cost. The legislation is silent as to how to determine the applicable labor costs.

IP and jurisdictional restrictions

No provision of the Japanese law addresses where IP ownership should be retained. However, only tax deductible R&D expenses borne by the Japanese entity are eligible for the credit.

Other concerns

No prior approvals from government/regulatory agencies are required.

Credit must be claimed on the tax return for the relevant period. Claims on amended tax returns are not accepted.

Lithuania

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Background

Lithuania's corporate income tax rate is currently 15%. Micro companies (companies with less than 10 employees or income less than LTL 1M per year) may be entitled to a reduced tax rate of 5%.

Nature of incentives

The Lithuanian R&D tax incentives became applicable for tax year beginning on or after January 1, 2008. There are two tax incentives available to companies:

- 300% super deduction: The deduction is available for 1) expenses incurred by companies conducting research activities, and 2) expenses incurred to acquire research technologies conducted within EEA countries or countries with tax treaties.
- Accelerated depreciation: Certain capital assets used in the R&D activities (e.g. plant and machinery and installations cost, computer and communications equipment including networks and equipment, software purchases) may be depreciated with a shorter period of time. Depending on the type of capital asset, the depreciation period might be shortened from 8, 5, 4 or 3 years to 2 years.

If the company performing research activity incurs losses, the eligible expenses can be carried forward for unlimited period of time.

Eligible industries and qualifying costs

Eligibility of research incentives is not limited to particular industries or the type of an entity. In order to claim the benefit, the taxpayer must prove that activities performed are R&D activities. R&D activities must have an element of novelty and the underlying activities must address scientific and/or technological uncertainty. The aim of an R&D project shall be a scientific or technological progress and the results shall be significant for entities that initiated and executed the project.

Qualifying expenditures include gross wages, social security and health insurance contributions, business trip expenses, expenses for purchased services (consultation services with respect to the research activities), building and equipment leasing, maintenance expenses, warehousing, utility services, expenses for raw materials or other consumable used in the research activities. Input/import VAT taxes are not-deductible.

IP and jurisdictional restrictions

The 300% super deduction is eligible for expenses to offset taxable income in the period the expenses are incurred. The expenses must be incurred by the entity with the intention to generate income or economic benefit. Qualified activities can be undertaken anywhere, as long as a Lithuanian entity pays for the research.

The super deduction also applies to a Lithuanian entity which acquires research technologies only if the acquired technologies have been conducted within EEA or a country with a tax treaty for the avoidance of double taxation with the Republic of Lithuania. If the technology acquired from another entity or natural person results in IP (e.g. industrial, manufacturing information, trademarks, patents, copyrights, etc.), the rights or any part of the rights must also pass to the acquiring entity.

Other concerns

Taxpayer must possess appropriate documentation to support the eligible expenses; however, it is not necessary for the taxpayer to submit the documentation until requested by the 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. The annual corporate income tax return can also be amended for the five preceding tax periods.

Malaysia

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Background

Malaysia's general corporate tax rate is 25%.

R&D incentives include:

- Investment Tax Allowance (ITA);
- Super deductions; and,
- Enhanced benefits for Pioneer Status (PS).

Nature of incentives

Investment Tax Allowance (ITA):

- Companies performing in-house R&D to further its business may qualify for an ITA of 50% on the qualifying capital expenditure incurred within 10 years.
- R&D service providers may qualify for an ITA of 100% on the qualifying capital expenditure incurred within 10 years.
- The company can offset the ITA against 70% of its statutory income for each year of assessment.
- Any unutilized allowances can be carried forward to subsequent years until fully utilized.
- Generally, R&D service providers should have at least 70% of their income derived from R&D activities in order to qualify for the ITA. If an R&D company does not claim the benefit for services provided to related companies, the related companies can receive a 200% super deduction for payments made to the R&D Company for services rendered.
- This benefit is available only to companies that are certified by the Malaysian Investment Development Authority (MIDA).

200% super deductions:

- Companies performing in-house R&D to further its business are allowed to claim 200% super deductions for non-capital expenditures incurred in qualifying R&D, if approved by the Minister of Finance.
- 200% super deductions can also be claimed for cash contributions or donations to approved research institutes, and payments for the use of the services of approved research institutes, approved research companies, R&D companies, or contract R&D companies.
- Companies residing in Malaysia are eligible to claim the 200% super deduction for registration of patents, trademarks, and product licensing overseas if these expenses are primarily and principally incurred for the purpose of promoting the exports of goods or agricultural products manufactured, produced, processed, graded or sorted and assembled in Malaysia.
- Expenditures on R&D activities undertaken outside of Malaysia, including the training of Malaysian staff, will be considered for 200% super deductions on a case-by-case basis.
- Claims are submitted and reviewed by the Inland Revenue Board (IRB).
- Approved R&D expenditures incurred during the tax relief period for companies granted Pioneer Status can be accumulated and deducted after the tax relief period.

Enhanced benefits for Pioneer Status:

The Minister of Finance is granted the authority to provide "pioneer status" to companies deriving income from certain activities and products that benefit the Malaysian economy. Promoted "activities" and "products" are determined by the Minister of Finance and published in the Government Gazette. R&D companies, high tech companies, software development companies, and manufacturing companies capable of producing world-class products are typically granted Pioneer Status. Statutory income earned by an R&D company provided Pioneer Status is exempt from tax for a period of 5 years. Pioneer Status, with government approval, can be extended for another 5 years.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Qualified research, in general, is 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 expenditures for the in-house research incentive include wages, supplies, technical services, technical costs, transportation costs, maintenance costs, rents, and other expenditures incurred directly for the conduct of qualified research.

IP and jurisdictional restrictions

The resulting IP does not have to reside within Malaysia.

The R&D activities must generally be performed within Malaysia.

Payments for technical services performed outside of Malaysia may qualify for the 200% super deduction when the amount expensed is less than 70% of the total allowable expenditure for the super deduction.

Other concerns

Current in-house research projects must be pre-approved by the IRB before the 200% super deduction is permitted.

Mexico

Background

Mexico's general corporate income tax rate is 30%.

Although research and development (R&D) incentives were eliminated as part of Mexico's 2010 tax reform, funds have been allocated once again by the legislature to extend R&D grant programs to provide direct cash subsidies for qualified R&D projects undertaken in 2013 and 2014.

The incentive is administered by the National Council for Science and Technology (CONACYT), which determines eligibility and grants the incentive to qualifying companies.

Nature of incentives

The R&D incentives are provided in cash grants through the following three programs:

- High Added Value Technological Innovation for Technological Research, Development, and Innovation (INNOVAPYME): Granting economic support to micro, small, and medium-sized enterprises (MIPYMES) for activities preferably performed in conjunction with higher education institutions or research centers.
- Development and Innovation of Precursor Technologies for Technological Research, Development, and Innovation (PROINNOVA): Granting economic support to MIPYMES and large companies. Proposals are required to be presented on a network basis and must involve collaborative research with another entity and one research center/higher education institution.
- Technological Innovation to Enhance Competitiveness for Technological Research, Development, and Innovation (INNOVATEC): Granting economic support to large companies. Priority is given to collaborative proposals involving research centers or higher education institutions.

Applications for the cash grant may be submitted from January to February.

The grants provided by the above programs range from 22% to 75% of eligible R&D expenses paid by the Mexican company. The largest grants are generally awarded for collaborative research conducted with a research center or higher education institution.

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Mexico extends grant programs to fund R&D projects undertaken in Mexico.

R&D costs, such as wages, supplies, and contractor fees are deductible when paid or incurred for income and flat tax purposes. Generally, buildings and capital equipment used in research must be depreciated, but some expenses can be deducted if certain requirements are met.

Eligible industries and qualifying costs

The R&D grants are not limited to specific industries. Eligible companies engaged in activities related to technological investigation, development, or innovation may qualify – particularly if the proposal includes collaborative research.

The grants offered will typically cover the related operating expenses for research centers or higher education institutes, project salaries, personnel travel expenses, expenses incurred to register intellectual property rights, technological studies, analyses, etc., certain scholarships, infrastructure creation expenses, and prototypes, pilot models, and their evaluation.

IP and jurisdictional restrictions

The qualified R&D activity must occur within Mexico. While intellectual property does not have to be retained in Mexico, this factor may be considered by the granting authorities in deciding whether to fund the R&D project.

Other concerns

Annual application requirements mandate submission of documentation detailing the nature of the qualifying projects.

Netherlands

Background

The Netherlands corporate tax rate ranges from 20% to 25%. The nation offers three incentives to taxpayers engaged in qualified research:

- WBSO: This incentive reduces wage tax and social security contributions for employees engaged in R&D activities.
- R&D Allowance (RDA) is a super deduction (effective 1 January 2012): Taxpayers are allowed a super deduction of 160% (rate for 2014) of qualifying non-wage expenses directly attributable to qualified research activities.
- Innovation Box (formerly the Patent Box)

Nature of incentives

Wage tax and social security contributions are reduced for R&D employees if the taxpayer qualifies for WBSO benefits. In 2014, the reduction is 35% (up to 50% for start-up companies) of the first €250K in R&D wage costs and 14% for the remaining wage costs with a maximum reduction of €14M per taxpayer. To receive the WBSO tax benefits, the taxpayer must receive certification from the Dutch Government in advance.

The super deduction is 160% of qualifying R&D expenses, but is limited to expenses other than wages, that are attributable to R&D. The application for the RDA is done simultaneously with the WBSO request.

In 2007, the Netherlands introduced the “patent box,” subsequently renamed the “innovation box” effective 1 January 2010. The innovation box applies to patented and non-patented innovations alike, provided that the R&D efforts qualify for the wage tax benefits for innovation (WBSO) – described above. There is no cap on the amount that can be allocated to the “innovation box.”

Development costs and losses on the exploitation of IP that are allocated to the “innovation box” can be deducted against qualifying income. Beginning in 2010, the effective tax rate for income attributable to qualifying inventions (net of the invention’s development cost) allocated to the “innovation box” is reduced to 5%.

From 1 January 2013, additional benefit is offered to new patented and non-patented innovation-related income for which the R&D activities were eligible for WBSO. The benefit is that 25% of the annual income from innovation can be taxed at the reduced 5% rate, with a cap at €25K profit annually. This new benefit applies to income before netting the development cost, and is designed for SME companies that have low income from qualifying inventions. The taxpayer has the option to elect this benefit for one-year, two-year or three-years for each innovation. However, once this benefit is elected for the year, it covers all innovation related income for that year. For example, taxpayer has income from innovation in Year 1 of €80K, Year 2 of €0, and Year 3 of €200K. If the taxpayer elects this benefit, 25% of Year 1 income is taxed at 5%, and maximum €25K income from Year 3 is taxed at 5%. In Year 2, the taxpayer is eligible to use the other innovation box benefit.

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Netherlands reduces employer contributions for wage tax and social security for employees performing R&D, a limited super-deduction and an innovation box taxing income attributable to innovations at 5%.

Eligible industries and qualifying costs

WBSO, RDA, and Innovation Box are open for all industries. R&D means:

- The development of technically new physical products, physical production processes, software, or components thereof;
- Technical-scientific research seeking to explain phenomena in fields, such as physics, chemistry, biotechnology, production technology, and information and communications technology;
- Analysis of the technical feasibility of an R&D project; and,
- Technical research aimed at enhancing physical production processes or software.

Qualifying costs include wages paid to eligible employees for the WBSO tax incentive.

The RDA makes a distinction between operating costs (OPEX) and capital costs (CAPEX).

- OPEX expenses are considered to be “all amounts paid” for the qualifying WBSO and RDA project. Example includes raw material, third party services, and software license.
- CAPEX expenses are considered to be “all amounts paid” for the investment in new business assets, except investments in land and business assets which qualify for the energy or environmental investment allowance.

IP and jurisdictional restrictions

To claim the WBSO and RDA incentives, the R&D activities must occur within the EU and must be performed by employees on the Dutch payroll.

For the Innovation Box, it is essential that a qualifying intangible is developed for the risk and reward of a Dutch company. Ownership of the IP is an important consideration. If the patent is owned by a Dutch company, the related research activities can be subcontracted abroad.

Poland

Background

The Polish corporate tax rate is 19%. Since 1 January 2006, Polish law has provided tax incentives for R&D investments in new technology. Additional incentives are available to entities with the status of “Research and Development Centers”. Poland also offers a number of cash grant programs.

Nature of incentives

- Development activities are 100% tax deductible.
- Tax deduction and exemptions for R&D centers: Entities having 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.
- R&D centers: Public grants up to 50% of the cost of labor or fixed assets. If the R&D center is located in a special economic zone, the company can enjoy corporate tax rate relief up to 50%. R&D centers are also eligible for a real estate tax exemption, as well as rural and forest tax exemptions.
- New technology tax relief: A company can deduct from its tax base up to 50% of expenditures incurred for the acquisition of new technology in the form of intangible assets such as proprietary rights, licenses, rights under patents or utility models, know-how, that result in improvement of existing products/services. In the case of loss, the tax deduction may be used during the subsequent 3 tax years.
- Grants: Poland is one of the biggest beneficiaries of EU funds. The funds for 2007 through 2013 are almost entirely distributed; however Poland is developing new programs to take effect in 2014 through 2020. Poland will remain the biggest beneficiary with about €78 Billion funds. It is expected that new calls for proposals will be available by end of 2014. The new financial perspective offers new funding for R&D directly from the European Commission, such as Program Horizon 2020 which is expected to be launched at the beginning of 2014.
- As an alternative to EU funds national budget grants are still available allowing the enterprises to finance 50 -60% of R&D costs (up to 80% if cooperating with R&D entities).

Eligible industries and qualifying costs

The following expenditures are eligible for deduction and grants:

- Cost of personnel directly involved in R&D project.

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- Depreciation costs for equipment used in R&D activity.
- Consultancy costs and other services linked to R&D.
- Other direct costs.

R&D Center Status: In order to acquire R&D Center status (given by the Minister of Economy), a company must submit a formal application and comply with the following conditions:

- Minimum net sales revenue of €1.2M for the previous financial year;
- Sales revenue of internal R&D services or industrial property rights accounting for 20% of net revenue; and,
- No outstanding regulatory liabilities.

Poland offers research grants and technology incentives for qualified expenses.

New Technology Tax Relief: The new technology tax relief is available to all entities operating in Poland and acquiring new technologies, except for taxable persons using the flat rate method and enterprises which carry out business activity in special economic zones. The list of eligible expenditures includes only costs of acquired technological solutions in the form of intangible assets. Therefore, the costs of internal research and development as well as costs refunded from other public aid sources do not qualify for the technology incentive.

In order to use the technology incentive, a technological solution is not allowed to be used worldwide for a period exceeding 5 years, which needs to be supported by an opinion issued by an independent research unit. For audit purposes, the company should obtain an opinion issued by an independent research unit confirming that at the time of its acquisition the new technological solution had not been used worldwide for a period exceeding 5 years. An enterprise that is the beneficiary of this tax incentive may not grant other entities rights to the new technology before a lapse of 3 tax years starting from the date when the tax incentive was used.

New technology tax relief is considered to have relatively low attraction to new companies and requires a highly formalized administrative procedure. As a result, only a small number of entities benefit from this incentive.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on intellectual property concerning R&D tax allowances.

Other concerns

There is an on-going discussion in Poland which might result in significant changes in the research tax incentives. One of the leading proposals from the Ministry of Economy is to introduce the 125% super deduction for eligible expenses. The proposed changes are aimed to create more tax incentives for eligible expenses related to research and development work conducted by the taxpayers (not just for purchased R&D results), increase the level of the incentive and extend the period of possible deduction in future years. The proposed changes are currently being discussed and any agreed-upon amendments are expected to be introduced no sooner than mid-2014 or beginning of 2015.

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Portugal

Background

Several changes were introduced to the Portuguese Tax Incentives Scheme for Corporate R&D (SIFIDE II), namely its extension through 2020.

Nature of incentives

The incentive consists of a credit against the corporate tax liability for expenditures incurred on R&D activities (net of any cash grants made by the Portuguese Government to the R&D project). The tax credit is both volume and incremental, according to the following rates and limits:

- Base rate: 32.5% of the R&D expenditure during the tax year. New Small and Medium Enterprises (SME) may benefit, under certain circumstances, from a special increase of 10% of the base rate.
- Incremental rate: 50% of qualified spending exceeding the average amount spent in the prior 2 tax periods – capped at €1.5M.
- Patent Box: 50% of income from patents, industrial designs or models registered on or after January 1, 2014 is exempt from corporate tax.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. The qualified activities could occur anywhere as long as the cost is incurred by a Portuguese company claiming the benefit.

The eligible expenditure includes:

- The acquisition cost of new fixed assets connected with R&D activities, except buildings and land.
- Wages of personnel directly involved in R&D activities.
- Allocated costs of directors and professionals participating in the management of R&D institutions.
- Operating expenses, such as overhead and contracted R&D expenses from anyone other than public entities and/or entities not officially recognized as possessing R&D capabilities, of up to 55% of wages of personnel directly involved in R&D activities.
- Costs of contracting R&D activities from public entities and/or from entities recognized as possessing R&D capabilities.
- Expenditures incurred to raise capital for institutions that perform R&D and contributions to funds aimed to finance R&D.
- Costs of registration and maintenance of patents.
- Patent acquisition costs related to R&D activities (applicable only for SMEs).
- Costs of R&D audits (applicable only for SMEs).
- Expenses related to demonstration activities of approved R&D projects.

The expenses incurred in relation to projects exclusively developed for third parties, namely under the scope of contracts and R&D services rendering, are not eligible.

Portugal extended its R&D tax credit through 2020.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on intellectual property concerning R&D tax benefits.

Other concerns

There is a new application process requiring submissions by end of the 7th month after year-end (usually July of the following year since most taxpayers are calendar year-end). If the tax liability for the year is insufficient to permit full utilization of the credit, any unutilized tax credit can be carried forward up to eight taxable periods for tax year beginning on or after January 1, 2014 (previously it was six years).

Russia

Background

The Russian corporate tax rate is 20%.

Russia offers 150% super deduction for profits tax, reduced social security contributions, and a value added tax (VAT) exemption.

Nature of incentives

- 150% super deduction: Companies conducting eligible R&D activities can apply for a 150% super deduction to reduce profits tax. A super deduction can be taken even if such R&D activities fail to produce a new product or new service. If a company is in a loss position, no refund is possible. Losses for tax purposes as a result of super deductions can be carried forward for 10 years.
- Depreciation: Accelerated depreciation can be applied to fixed assets used in R&D activities.
- Reduced social security contributions: Companies involved in developing software (meeting certain operational requirements) can enjoy a reduced rate of 14% on annual remuneration up to a cap of RUB568K (the cap is subject to increase in 2014). Remuneration exceeding the cap is exempt. Otherwise, the contribution rate is 30% on annual remuneration up to the cap, and 10% on annual remuneration exceeding the cap.
- Special Economic Zones: Russian legal entities registered in a Technical and Innovation Special Economic Zone with no external branches or representative offices can have their profits tax rate reduced from 20% down to 0% depending on region. These companies also benefit from property tax exemption, a free customs zone, and a reduced rate of 14% for social security contributions. The approval process is quite complex.
- Starting in 2010, companies operating within the Skolkovo Innovation Centre enjoy certain benefits: 1) profit tax exemption; 2) VAT exemption; 3) property tax exemption; and, 4) a reduced rate of 14% for social security contributions. In the majority of the cases, the overall tax burden is limited to the 14% social security contribution on salaries. The approval process is rather transparent. To receive such benefits, the company must be a Russian legal entity and be conducting one of the following targeted types of innovative activity: energy efficiency, nuclear engineering, space technology, medicine, or IT.

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Russia offers 150% super deduction for qualifying R&D activities and enhanced benefits for businesses located in special zones.

Eligible industries and qualifying costs

R&D expenditures 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 are often performed by companies across many industries, not just in high technology, such as oil and gas, telecommunications, transportation, and information technology, among others. 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 75% cap of eligible salary cost.

IP and jurisdictional restrictions

In Russia, there are no provisions stipulating specific restrictions on whether or not activities need to be conducted within the country, nor on whether or not overseas R&D contractors can be used. The most significant restriction is that a contractor performing R&D for a third party cannot claim the incentive, but the third party can make the claim if they meet all other criteria.

Super deduction can be applied regardless of whether the activities are successful, i.e., whether or not the activity resulted in IP. If the R&D activities led to the creation of IP, the relevant expenses can also be multiplied by 1.5 and considered in profits tax calculations within two years. The cost of acquiring IP is not eligible for the super deduction.

Other concerns

Russian tax authorities require R&D reports for every eligible project to be filed with the annual profits tax return. There's no preapproval procedure, and the reports are evaluated as part of the profits tax calculation within the tax audit procedures.

Singapore

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Singapore offers super deductions under a complex multi-tiered system.

Background

The general corporate tax rate is 17% with partial tax exemption granted for the first S$300K of otherwise taxable income.

Nature of incentives

Section 14D base deduction:

Section 14D provides an exception to the general rule that new product and process development costs are capital in nature and hence not tax deductible by allowing current deductions for R&D expenditures incurred by a taxpayer in the conduct of its trade or business (including payments made to R&D organizations).

Eligible expenses include: wages and salaries, materials, and utilities incurred directly for R&D activity. Capital expenditures on plant, machinery, land, or buildings, or on alterations, additions, or extensions to buildings, or in the acquisition of rights arising in or arising out of R&D are specifically excluded. For the tax years from 2009 to 2015, the R&D expenditures need not be related to the entity's existing trade or business unless the R&D is performed outside Singapore. Unutilized R&D deductions may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions.

Section 14DA additional deduction:

Qualifying expenditures incurred during tax years from 2009 to 2015 may, in addition to qualifying for the Section 14D base deduction, qualify for an additional deduction of 50% of qualifying expenditures.

Qualifying expenditures have been defined to include only staff costs, consumables, and any other expense prescribed by the Minister. This is a narrower definition of qualifying expenses than under Section 14D. Expenditures incurred on R&D performed outside of Singapore do not qualify for the additional deduction of 50%.

Section 14DA enhanced deduction:

The enhanced deduction is granted for 5 years from tax years 2011 to 2015. Under this scheme, the tax deduction of qualifying R&D expenditures on R&D carried out in or outside of Singapore is enhanced as follows:

- A 250% (for Singapore based R&D) or 300% (for non-Singapore based R&D) enhanced deduction is granted on the first S$400K of qualifying R&D expenditures incurred per year. This is in addition to the 100% ("base deduction") and 50% ("additional deduction" for Singapore R&D only) on qualifying R&D expenditures incurred under Section 14D and Section 14DA respectively. With this enhancement, there will be up to 400% tax deduction available on the first S$400K of such expenditures incurred.
- The base deduction and additional deduction remain applicable to qualifying R&D expenditures exceeding the S$400K incurred per year.
- For the tax years 2013 to 2015, the enhanced deduction is granted under a combined cap of S$1.2M over the 3 year period.

In addition, there is the option (in lieu of the tax deduction) to convert up to S$100K of tax deductions into a non-taxable cash grant at the conversion rate of 60% for tax years 2013 to 2015 (i.e.S$60K). There is also the option for companies to defer tax for effectively a year based on qualifying expenditure incurred in the current financial year, up to a cap of S$100K.

Section 14E deduction:

This provision allows super deductions of up to 200% of certain specified qualified expenditures approved by the government for R&D projects carried out in Singapore.

Unutilized R&D expenditures may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions.

The combined total claims under Section 14E and Sections 14, 14D, and 14DA, with respect to the approved project, are capped at 200% of the taxpayer's actual expenditures. However, the 200% restriction does not apply to R&D expenditures that qualify for the section 14DA enhanced deduction.

Eligible industries and qualifying costs

R&D 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."

While the recent removal of the “multiple sales” criteria for software-related R&D for tax year 2012 and forward have significantly widened eligibility, there remain certain activities that are excluded from the definition of R&D; including routine or cosmetic modifications, quality control or routine data collection.

Entities conducting R&D may claim the tax benefits described above regardless of their industry classification.

IP and jurisdictional restrictions

The R&D expenditures need not be related to the entity’s existing trade or business as long as the R&D is performed in Singapore. If the R&D payments are made by an entity to a R&D organization outside Singapore, a claim for deduction shall be allowed to such entity, provided that the R&D expenditures are related to the entity’s existing trade or business and that any benefit that arises from the R&D accrues to the entity itself. With effect from tax year 2012, the qualifying R&D expenditures also extend to payments made under any cost-sharing agreement.

Section 14D base and section14DA enhanced deductions: R&D may take place outside of Singapore. The entity does not need to have the legal ownership of the resulting IP in Singapore. Beneficial ownership with the right to commercialize the IP would suffice. No prior approval is required to claim these deductions.

Section 14DA additional deduction: Only R&D activities undertaken in Singapore qualify for the section 14DA additional deduction. No prior approval is required to claim the deduction.

Section 14E R&D deduction: The R&D project must be carried out in Singapore and must receive special approval from the Minister (advance application with the Singapore Economic Development Board is required).

Other concerns

When expenses exceed trade income, the excess may be carried forward and set off against future taxable profits, provided the shareholders of the company are substantially (50% or more) the same on the last day (i.e., 31 December) of the year of 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 loss carry back for 1 year is allowed, but restricted to a cap of S$100K.

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South Africa

South Africa offers a 150% super deduction for eligible research and development expenditures.

Background

South African general corporate tax rate is 28% (small business corporations pay taxes between 0% and 28%).

Nature of incentives

Super deduction: South Africa provides a volume-based super deduction equal to 150% of the qualifying operational expenditures incurred directly for purposes of R&D. After 1 October 2012

- Qualifying research and development will automatically qualify for a tax deduction of 100%.
- Pre-approval from the Department of Science and Technology (DST) is required to qualify for an additional 50% deduction.

Accelerated depreciation: Capital expenditures incurred to develop or construct assets used in the conduct of qualifying R&D activities qualify for favourable accelerated depreciation. For new and unused plant or machinery placed in service after 1 October 2012:

- 40% in the year that the asset is brought into use for the first time by the taxpayer, and
- 20% in each of the three succeeding years of assessment.

For used plant or machinery placed in service after 1 October 2012:

- 20% in the year that the second hand asset is brought into use, and
- 20% in each of the four succeeding years of assessment.

Apportionment is not available for partial years.

Eligible industries and qualifying costs

Industries that are typically eligible for the super deduction include, but are not limited to:

- Pharmaceuticals
- Software services
- Software development
- Design centers
- Automotive
- Energy & utilities
- Mining & natural resources

For R&D expenses to qualify, they must relate to activities that are undertaken within South Africa and involve systematic investigative or systematic experimental activities of which the result is uncertain for the purpose of:

- Discovering non-obvious scientific or technological knowledge; or
- Creating any invention, design, computer program or knowledge essential to the use of such invention, design or computer program; or
- Developing or significantly improving any invention, design, computer program or knowledge, if that development or improvement relates to any;
    - New or improved function;
    - Improvement of performance;
    - Improvement of reliability; or
    - Improvement of quality.

Further, these expenses must be intended to be used by the taxpayer in the production and conduct of their trade and business. Expenses incurred while conducting the following activities do not qualify as R&D expenditures:

- Market research, market testing or sales promotion;
- Administration, financing, compliance or similar expenditure;
- Routine testing, analysis, collection of information or quality control in the normal course of business;
- The development of internal business processes unless those internal business processes are mainly intended for sale or licence;
- 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;
- The creation or development of financial instruments or financial products; and
- The creation or enhancement of trademarks or goodwill.

All 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.

The definition for R&D will change slightly as from 1 January 2014.

Other concerns

If the business is in a loss position, the benefit may be carried forward until utilized.

When a company receives funding from another company (or any other 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 government grant is received by the taxpayer to fund the research activities, an amount equal to the funded portion must not be taken into account for the purpose of the deduction.

Preapproval is required from the Department of Science and Technology (DST). Only expenditure incurred from the date of submission of an application to the DST may qualify.

South Korea

Background

The corporate tax rate in South Korea ranges from 11% to 24.2% (dependent upon the taxpayer's tax base). South Korea offers a general tax credit for R&D expenditures, plus an additional credit for expenses incurred for investments in R&D equipment.

Nature of incentives

Small and Medium Sized Enterprises (SME):

- The credit equals the greater of either: 1) 50% of current year R&D expenses exceeding the average of the 3 prior years R&D expenditures; or, 2) 25% of current R&D expenditures.
- 30% tax credit computed on current R&D expenditures if the R&D expenditures are incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.
- If a SME purchases certain intellectual property prescribed by the tax law from a Korean third-party resident, the SME is entitled to claim a tax credit in the amount of 7% of the purchase price.

Large companies (non-SMEs):

- The credit equals the greater of: 1) 40% of current year R&D expenditures exceeding the average of the 3 prior years R&D expenditures; or, 2) 8% of the current year R&D expenditures or the R&D expenditures for the current year multiplied by the following rate capped at 6%: 3% plus "additional rate" defined as 50% of R&D expense ratio (R&D expense divided by revenue).
- 20% tax credit computed on current R&D expenditures if the R&D expenditures are incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.

Unused R&D credits may be carried forward 5 years (no refund).

Investment tax credit for R&D equipment:

- Credit equals 10% of the total investment amount for certain R&D equipment.
- Eligible expenses include costs of machinery, facilities, tools, office machines, telecommunications instruments, testing machines, optical instruments, etc. used in the conduct of R&D activities.

Unused R&D credits may be carried forward 5 years (no refund).

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In addition to incremental and volume based credits, an investment tax credit is permitted for R&D equipment.

R&D reserve deduction:

Taxpayers can fully deduct R&D expenses. In addition, a taxpayer can deduct, in year 1, as qualified R&D expenses an amount equal to 3% of its revenue, called the "R&D reserve deduction". After 3 years, the taxpayer is required to add the R&D reserve deduction back into income on a pro-rata basis for the next 3 years (years 4 through 6). However, if the taxpayer's total qualified R&D expenditures during years 1 through 3 are less than the R&D reserve deduction taken in year 1, the taxpayer is obligated to pay interest on the difference.

Eligible industries and qualified 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 institutes) to develop technology for the company, trademark design, and development, manpower training, and quality control.

Qualified 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).

IP and jurisdictional restrictions

All R&D expenditures directly related to the R&D activities of the company may be claimed in the tax credit computation regardless of the location of the R&D activities; 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. The R&D tax credits are not allowed for R&D service providers.

Other concerns

Companies may file an amended return to claim the credit up to 3 years from the date the original tax return was due.

Spain

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Background

The Spanish corporate income tax ("CIT") rate is 30%. Spain applies different tax rates for small companies (20% to 30%), oil companies (35%), savings banks (25%), Real Estate Investment Trusts (REITs of 19%), and investment funds (1%). Spain offers immediate deduction of qualified R&D expenditures, as well as offering research tax credits for technological innovation.

Nature of incentives

- Volume 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 of the current year expenditures exceeding the average of such expenditures incurred in the preceding two tax years. If the taxpayer's current year spend exceeds the average of the prior two years, the taxpayer receives a credit equal to 25% of the current expenses plus 42% of the excess over the base.
- Personnel credit: A 17% credit for wages paid to qualified researchers dedicated exclusively to R&D.
- R&D equipment credit: An 8% credit for amounts invested in tangible and intangible fixed assets, excluding real estate, used exclusively in the conduct of qualified R&D.
- Expenses incurred for research activities that result in a technological innovation for existing products receive a 12% credit. However, the maximum allowed expenses is limited to €1M for the acquisition of know-how, licenses and patents.
- In Spain, 60% of the net income from the grant and sale of intangible assets is exempt from the taxable income, which leads to an effective rate of 12% for companies subject to the standard corporate tax rate.
- Patent Box: 50% of the income from the assignment of patents is exempt from taxable income.

Credit limitations: If the amount of qualified R&D expenses for the tax year exceeds 10% of the tax due (after reducing for tax credits), the tax credits may not offset greater than 50% of the gross tax due. If the amount of R&D expenses does not exceed 10% of the tax due (after reducing for tax credits), the credits may offset up to 25% of the gross tax due.

Unused credits may be carried forward for 18 years; however, there is the option to elect not to be subject to the annual limitation if the taxpayer has generated the credit meeting certain requirements. The amount of the additional credit utilization is reduced by 20% and subject to an annual limitation: 1) €1M if the credit was attributable to technological innovation related expenses; or 2) €3M for jointly R&D and technological innovation related expenses. In order to obtain legal certainty of the refund, the taxpayer can apply to the Spanish Tax Authorities for a pre-validation.

Eligible industries and qualified 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 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, as well as the cost of investments in fixed assets that are exclusively dedicated to R&D activities. Supplies and indirect expenses are excluded.

Spain offers a volume-based and incremental research tax credits.

IP and jurisdictional restrictions

In order to qualify for any credit, all qualified R&D must take place in Spain or a member state of the European Union or in the European Economic Area. IP ownership does not affect whether the taxpayer can claim the credit or not.

Other concerns

On 23 July 2013, , the Council of Ministers finalized the Scientific and Technical Research State Plan that will be the strategic focus of the Spanish R&D and TI (Technical Innovation) policy for the 2013-2016 periods.

Turkey

Background

Turkey's general corporate tax rate is 20%.

Turkey introduced significant modifications to its R&D tax incentives by R&D Law No 5746 which was effective beginning 4 January 2008.

Nature of incentives

- 100% deduction of R&D expenditure from the tax base if the number of full-time-equivalent R&D personnel exceeds 500.
- If the number of full-time-equivalent R&D personnel exceeds 500, there's an additional deduction: 50% of the R&D expenditures increase compared to the previous year can also be deducted,
- Income tax withholding incentive: 80% (90% for PhD personnel) of wages of R&D or supporting personnel (except for public employees) are exempt from withholding taxes.
- 50% of the company's contribution of social security premium is compensated by the Treasury for 5 years.
- All applicable documents prepared for R&D activities are exempt from stamp duty.
- Grants (Not considered income): Grants received from government entities, voluntary trusts and international funds in support of R&D activities are recorded in a special fund account instead of being classified as income and added to the tax base.
- Technology initiative capital could be given as grant for new scientists up to TRY100K.
- Technology Development Zones (TDZ): The advantages in TDZ for a taxpayer are:
  - Profits derived from software development and R&D activities are exempt from income and corporate taxes until 31 December 2023.
  - Deliveries of application software produced exclusively in TDZ are exempt from VAT until 31 December 2023.
  - Wages of researchers along with software and R&D personnel employed in the zone are exempt from personal income tax until 31 December 2023.
  - 50% of the employer's share of the social security premium will be paid by the government for 5 years until 31 December 2024.

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- Scientific and Technological Research Council of Turkey (TUBITAK) and Turkish Technology Development Foundation (TTGV) compensate or give grants for R&D related expenses, and provide loans for R&D projects. Moreover, TTGV offers long term interest-free loans for technology development, renewable energy production, energy efficiency improvement and environmental impact-reduction projects.
- Industrial Thesis (SANTEZ) program: Direct financial support for new technology adaptation, process development, quality improvement and environmental modification projects to be achieved via university partnerships.

Incremental super deductions and exemptions from employment taxes, as well as government funded contributions to social security are available.

Eligible industries and qualified costs

The type of industry has no bearing on the availability of the incentives. Qualification is based solely upon the nature of the activities conducted within Turkey. Activities undertaken to achieve technological innovation qualify for the R&D tax incentives. Software activities are limited to new and original concepts.

R&D expenditures must be incurred within Turkey, and include starting material costs, depreciation and amortization, labor costs (salaries and wages), outsourced benefits and services, 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.), and other indirect cost for the conduct of qualified research (such as public utility services, transportation expenses, communication expenses, maintenance and repair expenses, insurance expenses, etc.). Allocated general administrative expenses are excluded.

IP and jurisdictional restrictions

There is no obligation to create an IP as a result of the R&D projects. There is no obligation for the Turkish Company to be the owner of the IP to claim the research benefit associated with the expenses.

Other concerns

R&D deductions can be carried forward indefinitely, but the amounts are limited under a complicated formula set forth in the Tax Procedurals Law.

R&D Activities are subject to a Sworn Fiscal Consultant's (SFC) certification. A taxpayer who benefitted from R&D deductions has to give a SFC Certification Report to its tax office certifying that its R&D deductions are computed and applied correctly.

United Kingdom

Background

The corporate tax rate ranges between 20 to 24%, with the top rate set to reduce to 23% for the year ended March 2014 (21% for the year ended March 2015 and 20% for the year ended March 2016).

R&D occurs when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainties. R&D also includes certain qualifying indirect activities as part of a project.

Nature of incentives

The United Kingdom offers volume-based incentives based on company size; a super deduction scheme for companies that fall within the definition of a Small-or-Medium-Sized-Enterprise (SME), and either a super deduction scheme or an R&D credit scheme for companies that do not fall within that definition (large companies).

Generally, an SME company must have fewer than 500 employees and either gross revenues of less than €100M or gross assets of less than €86M. Affiliated companies are generally considered in determining if a company qualifies as an SME.

- Large companies:
  - 130% super deduction; or
  - 10% (taxable) credit (from 1 April 2013).
- SMEs: 225% super deduction (200% before 1 April 2012); and
- Cash credits:
  - Cash credits are available for SMEs in loss position, up to 24.75% of the qualifying expenditure, (25% before 1 April 2012).
  - Large companies: Cash credits (subject to a cap) are available for large companies under the new R&D expenditure credit scheme if a company does not have corporate tax liabilities.

Unused benefits may be carried forward for an indefinite period to offset against future profits of the same trade unless there is a change in ownership and a change in the nature of the trade within three years of each other.

Currently, there are no caps on R&D deductions for large companies. However, there is a cap that restricts the amount of tax benefit available to SMEs, over and above the benefit that

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would have been available had the company not been an SME, to €7.5M per R&D project.

Capital expenditures are excluded from the super deduction, but a full deduction for capital costs incurred for R&D can be claimed in the year the expenditure is incurred; rather than being amortized for tax purposes in accordance with the usual rules.

A Patent Box regime enables companies to apply a lower rate of corporation tax to profits earned after 1 April 2013 from its patented inventions and certain other innovations. The relief was phased in beginning 1 April 2013 and the lower rate of corporation tax that can be applied is 10%.

UK offers either a 130% super deduction or a 10% refundable credit for large companies and a 225% super deduction for SMEs.

Eligible industries and qualified 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 expenditures on the following cost categories:

- Employing staff who is directly and actively engaged in carrying out R&D.
- Paying a staff provider for the services of personnel who are directly and actively engaged in carrying out R&D (limited to 65% of the payment).
- Consumable or transformable materials used directly in carrying out R&D (broadly, physical materials which are consumed or transformed in the R&D process).
- Power, water, fuel, and computer software used directly in carrying out R&D.
- SMEs can claim 65% of R&D related subcontract costs. Large companies can only claim subcontract costs if they are paid to a university, health authority, charity, scientific research organization, individual, or a partnership of individuals.
- Payments to volunteers for participating in clinical trials.

Expenditures on land, patents and patent protection are specifically excluded.

Large companies can claim the relief on costs associated with work that is contracted to them as long as it was contracted by another large company or any person not subject to UK tax, e.g., UK large company performs research for a U.S. company that is not subject to UK tax.

SMEs cannot claim the more advantageous small company 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 scheme (which means the SME would be unable to monetize losses into cash refunds).

IP and jurisdictional restrictions

There is no IP ownership requirement under the UK R&D schemes.

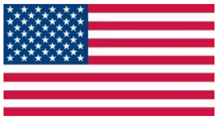
Introduction of the new R&D expenditure credit scheme

The R&D expenditure credit scheme was introduced for R&D claims under the large company scheme for expenditure incurred on or after 1 April 2013.

The new credit is available alongside the existing super deduction scheme until April 2016 when the new credit will become mandatory. Until April 2016 companies may elect for either scheme, but once a company has elected to claim under the new credit scheme, the election is irrevocable. The credit retains the current qualifying cost categories, but provides a higher benefit level.

A key aspect of the new credit scheme is that a cash payment can be received by companies which are not paying corporation tax, subject to a cap based on an amount equal to all of the payroll taxes and social security payable due on the salary costs of the staff included in the claim, as well as the eligible proportion of payroll taxes and social security taxes payable by a connected group company for employees included in the claim. The R&D expenditure credit is available at a rate of 10% and the credit is taxable. Cash payments to companies with no tax liability are paid net of tax.

One further advantage of the new R&D credit is that it can, in most jurisdictions, be accounted for like a grant, i.e. as a reduction from the qualifying expenditure, thus boosting operating profits. The current R&D expenditure scheme does not affect the benefit currently available to SMEs.



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United States

Background

Corporate taxable income is subject to graduated tax rates, ranging from 15% to 35%.

Tax credits are provided for qualified research expenses, i.e., the tax credit offsets federal income tax and the income tax in states offering research credits.

Nature of incentives

The U.S. provides two methods for computing the incremental credit for 2011:

- 20% credit: The “traditional credit” equal to 20% of the amount of the expenditures exceeding a “base amount” (complicated computation estimating the amount of gross receipts a company would expect to spend on qualified research); or,
- 14% credit: The alternative simplified credit (ASC) equal to 14% of the excess of the qualified research expenditures over 50% of the average of the three prior years’ expenditures.
- There are also special credits for basic research (e.g., research conducted in universities), payments to energy research consortium, and research relating to orphan drug.

Computational adjustments: There are several computational adjustments that significantly reduce the true value of these R&D tax credits:

- While qualifying R&D expenses are currently deductible, taxpayers must reduce the current deduction by the amount of the tax credit. Alternatively, taxpayers’ can elect on a timely filed return to take the credit at a reduced rate of 13% for the regular credit or 9.1% for the ASC.
- There is a minimum base amount applicable only to the traditional credit equal to 50% of current qualifying R&D expenditures. 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 current qualified R&D spending.
- There is no minimum base amount for the alternative simplified credit. If, however, there is no qualified research spending in any one of the 3 prior 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.

The U.S. Research Credit has been extended through 31 December 2013.

The U.S. offers tax credits to offset current, prior, and future income tax liability.

- Unused research credits can be carried back 1 year and carried forward 20 years (small businesses with less than $50M in gross receipts can carry back 2010 credits 5 years and forward 20 years);
- Credits are not subject to a cap;
- Generally, research credits are non-refundable; however, in very limited circumstances taxpayers can get a refund for unutilized pre-2006 carry forward credits in lieu of taking bonus depreciation (2008 to 2009).

American Tax Relief Act of 2012 (ATRA)

The ATRA modifies two aspects of the research credit computation:

- The research credit is determined at the controlled group level and then allocated to members of the group who do not join in a consolidated return. ATRA simplified the method for allocating credits to members of the controlled group based on each members proportionate share of the aggregate QREs (and other credit-eligible costs) taken into account by the controlled group in computing the group credit.
- ATRA also changed the rules relating to the adjustments made to the research credit to account for asset acquisitions and dispositions.

Eligible industries and qualified costs

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 labor, and supplies used in the research process. Overhead and capital expenditures are excluded.

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 the related qualifying costs must be incurred by a U.S. taxpayer (although such costs may be reimbursed by a foreign affiliate).

Other concerns

Taxpayers may amend prior year returns to claim tax credits when the tax year is open for assessment of tax.

Prior approval of projects or activities is not required.

Summary of Key Criteria

Refundable Credit:

Country	Explanation
Australia	For tax years commencing on or after 1 July 2011, an eligible entity will be entitled to either: 1. A refundable tax credit of 45% of eligible R&D expenditures (but the expenditures are not deductible) where the eligible entity has gross receipts of less than $20M and is not controlled by exempt entities; or 2. A 40% non-refundable tax credit for all other entities.
Austria	10% volume-based refundable credit on all qualifying R&D-related expenditures to the extent the credit exceeds the amount of the tax liabilities. For subcontracted research expenditures, the credit is subject to a cap of €1M annually. The tax benefit can therefore amount to a maximum of €100K.
Belgium	Excess tax deductions may be converted into a tax credit refundable after 5 years.
Canada	Federal credits issued to small Canadian controlled private businesses are refundable on the first $3M of expenditures.
France	If research tax credits are not utilized within 3 years, the taxpayer receives a refund for the unutilized credit. The refund rule was modified for 2005 – 2009 providing that unutilized credits were currently refundable, i.e., the taxpayer was not limited to refunds for tax credits that were unutilized after 3 years. Research credits also remain refundable in 2010 for SMEs, new companies, young innovative companies and companies facing financial issues.
Ireland	Unused credits may be carried back 1 accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over 3 years), subject to certain limitations and caps.
Singapore	There is an option to convert up to S$100K of tax deductions into non-taxable cash grant for each qualifying tax year from 2013 to 2015 at the rate of 60% (i.e., S$60K).
United Kingdom	Cash credits are available for SMEs in a loss position, up to 24.75% of qualified expenditures (25% before 1 April 2012). Cash credits are available for large companies under the new R&D expenditure credit scheme if a company does not have corporate tax liabilities.

Intellectual property must be retained in the country:

Country	Explanation
China	In order to gain and retain the HNTE status, any resulting IP rights must be located in China. Approval authorities often consider whether IP will be retained in China in granting approval to take super deductions, but this is not required by law.
Germany	The exploitation of project results, including IP, must, for the largest part, remain in Germany.
Israel	The location of IP is a factor in evaluating grant applications, but otherwise not legally required.
Malaysia	Location of IP is a factor in government pre-approval process, but otherwise not legally required.
Mexico	Location of IP is a factor in grant issuance decision process, but otherwise not legally required. While IP does not have to be retained in Mexico, this factor may be considered by the granting authorities in deciding whether to fund the R&D project.
Netherlands	For the Innovation Box, it is essential that a qualifying intangible is developed for a Dutch taxpayer who shoulders the risk for the development and retains the rights and ownership of the intangible.
Russia	There are no provisions stipulating specific restrictions on whether or not activities need to be conducted within the country, nor on whether or not overseas R&D contractors can be used.

Qualified research activity must occur within the country:

Country	Explanation
Austria	Activities must occur in Austria. Subcontracted research activities may occur in a branch or a plant within EU or EEA, but the activity must be based on management direction from the Austrian taxpayer.
Brazil	Qualified activities must occur in Brazil.
China	Qualified activities must occur in China. However, less than 40% of the activity qualifying for the HNTE incentive may occur outside of China.
France	Qualified activities must occur in EU.
Germany	Qualified activities must occur in Germany.
India	Qualified activities must occur in India.
Ireland	Qualified activities must occur within Ireland or EEA. The credit is denied when the activities occur in a EEA country where a corresponding tax deduction for such expenditures is permitted.
Israel	Qualified activities must occur in Israel.
Malaysia	Qualified activities must occur in Malaysia.
Mexico	Qualified activities must occur in Mexico.
Netherlands	To claim the WBSO and RDA incentives, the R&D activities must occur within the EU and must be performed by employees on the Dutch payroll.
Singapore	In order to claim the 14DA additional deduction and 14E deduction, the qualified activity must occur in Singapore.
South Africa	Qualified activities must occur in South Africa.
Spain	Qualified activities must occur in Spain, EU, or EEA.
Turkey	Qualified activities must occur in Turkey.
United States	Qualified activities must occur in the U.S (though such costs may be reimbursed by an affiliate overseas).

Qualified research activities can occur outside the country:

Country	Explanation
Australia	Activities can be physically performed outside Australia and remain eligible for benefits only if approved by the government by way of an advance finding. Such approval will be granted if the Australian core activities could not be completed without the overseas activities, and the activities are unable to be conducted in Australia for defined reasons, including: (i) no access to facilities or expertise in Australia, (ii) require access to population of living objects not available in Australia, or (iii) require access to geographical or geological features not available in Australia. At least 50% of total costs of the project across all project years must be incurred in Australia.
Belgium	Research activities may occur outside of Belgium.
Canada	Research must be undertaken in Canada; however, up to 10% of total wages can be incurred for research activities outside of Canada.
Croatia	There is no restriction on the location of the research activities or location of the IP.
Czech Republic	Research activities may occur outside of Czech Republic as long as the qualified expenses are deductable by the Czech taxpayer.
Hungary	Incentives are available to foreign entities without Permanent Establishment (PE) who subcontracts in Hungary.
Italy	Activities could occur outside of Italy.
Japan	Research activities may occur outside of Japan, even when the activities are subcontracted to another party. The Japanese company must bear the financial expenses.
Lithuania	Research activities may occur outside of Lithuania. For expenses incurred to acquire research technologies, it is limited to countries within EEA or countries with tax treaties with Lithuania.
Poland	Research activities may occur outside of Poland.
Portugal	Research activities may occur outside of Portugal; however, the qualified expenses must be incurred by a Portugese entity.
Russia	Research activities may occur outside of Russia.
Singapore	The expenses related to 14D base deduction and 14DA enhanced deduction do not have to relate to research performed in Singapore.
South Korea	Research activities may occur outside of South Korea; however, any subcontracted research to university or college must be located in South Korea.
United Kingdom	Research activities may occur outside of United Kingdom, but the work must be supervised by the UK company.

Qualified contract research allowed:

Country	Explanation
Australia	Contract expenditures are included as qualiifed expenses if they are directly related to research activities.
Austria	Subcontracted research expenses can be claimed by the party funding the research, with a credit cap of €1M per year. The subcontractor must be a qualifying EU/EEC institution and is not a related party.
Belgium	Contract expenditures are included as qualified expenses.
Brazil	Contractor payments for technical services may be qualified if the taxpayer does not participate in the research. Payments made to small businesses for the implementation of research projects are qualified. Contracts with national universities, research institutions, and independent inventors are only qualified if the taxpayer assumes all responsibility, enterprise risk management, and project cost control.
Canada	Contracted research to third parties, university, college and consortium are qualified. There are special rules for contract research to prevent duplicate claims. For contract expenditures incurred on or after 1 January 2013, there's a 80% limit. For contract expenditures incurred on or after 1 January 2014, contract amount related to capital expenditures made by an arm's length contract to fullfil an SR&ED contract is excluded.
China	For companies claiming the HNTE status, less than 40% of contracted research may occur outside the country.
Croatia	Costs of contract services used during the research, such as engineers and scientists hired to develop and research technologies and projects are eligible expenses.
Czech Republic	Only contract expenses incurred to certify research results are eligible for the research benefit.
France	There is a cap on private subcontracted research equal to 3 times the other qualifying expenses (limit of €10M subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to €2M. The limitations on contract research are applicable from 1 January 2011.
Hungary	Contract expenditures are included as qualified expenses.
India	125%-200% super deduction for payments made to prescribed research entities.
Ireland	Contract expenditures are included as qualified expenses with a cap of 10% of total qualified expenses in a given year. Where the R&D activities are contracted to a university or institute, the limit is 5% of the company's R&D expenditures in the period. For accounting period ending after 1 January 2012, the subcontracting limit is the greater of €100K, or the 10% and 5% limits. For periods starting on or after 1 January 2014 it is proposed that the limit will be the greater of €100K, or 15% to third party subcontracts and 5% to universities. The contractor must be unrelated to the funding taxpayer.
Italy	35% tax credit is available for total labour cost incurred by companies hiring qualifying researchers. Eligible employees are those with a university degree or a Ph.D. (researchers without a Ph.D. must be employed only in R&D activities).
Japan	Contract expenditures are included as qualified expenses for both SME and large companies.
Lithuania	Purchased services such as consulation services related to research activities are qualified expenditures.
Malaysia	Contract expenditures are included as qualified expenses if incurred directly for the conduct of qualified research.

Qualified contract research allowed (Cont.):

Country	Explanation
Netherlands	Contract expenditures are included as qualified expenses for the RDA incentive starting in 2012.
Poland	Contract expenditures are included as qualified expenses.
Portugal	Contract expenditures are included as qualified expenses. However from 2012 onwards they are limited to 55% of the qualifying staff costs if not paid to universities or other public research institutions, as well as to other entities not officially recognized as possessing R&D capabilities.
Russia	Contract expenditures are included as qualified expenses.
Singapore	Contract expenditures are eligible for the various deductions. Not verified.
South Africa	Contract expenditures are eligible for the 150% super deduction if they are directly related to the research activities.
South Korea	Contract expenditures are included as qualified expenses if paid to university or other research institutions.
Spain	Contract expenditures are included as qualified expenses if the contractor is located in Spain or a member state of the EU/EEA.
Turkey	Contract expenditures (outsourced benefits and services) are included as qualified expenses.
United Kingdom	SMEs can claim 65% subcontracted costs. Large companies can only claim subcontracted expenses if paid to university, health authority, charity, scientific research organization, individuals, or a partnership of individuals.
United States	Companies can claim 65% of contract research if the subcontracted activities are within the United States.

Treatment of income and expenses related to intellectual properties (IP):

Country	Explanation
Australia	If a taxpayer purchases technology for further internal development, the deduction for the purchase cost is limited to 1/3 of the expenditures on the internal development activities. Not verified.
Austria	For income from royalty payments related to self-developed IP or capital gains from sale of self-developed IP, the tax rate is reduced by 50% for individual taxpayers (not for corporations).
Belgium	Taxpayers can deduct 80% of qualifying IP income from taxable income, resulting in 6.8% maximum effective tax rate.
Brazil	1. An extra 20% deduction is for IP related development expenses, but only if a patent is registered. 2. 50% reduction of the IPI excise due for equipment, machinery, tools dedicated to R&D. 3. Equipment, machinery, and tools exclusively dedicated to R&D can be deducted when the expenses are incurred.
China	Taxpayer granted HNTE status has a reduced 15% income tax rate. For technology/software companies, the first RMB 5M is tax exempt from Enterprise Income Tax (EIT). Any income from technology transfers in excess of RMB 5M is taxed at 50% reduce EIT rate.
France	If a technology has been owned by a French taxpayer for at least 2 years, the revenue derived from licensing or sub-licensing, or sale of IP to unrelated entities are taxed at 15%. For French licensees, the royalty fee is deductible at 33.33%. For SMEs, 20% credit for new protypes or pilot expenses with a cap of €400K.
Hungary	50% of the gross royalty from IP (up to 50% of profit before tax) may be deducted from the corporate income tax base. As of 1 January 2012, capital gains tax exemption applies to gains from the sale/transfer of qualifying IP.
Ireland	There is a potential minimum 2.5% effective corporate tax rate on IP income .
Malaysia	Taxpayer is allowed to claim the 200% super deduction for IP and trademark application expenses.
Netherlands	Beginning in 2010, qualifying invention income (net of development cost) allocated to the Innovation Box is taxed at the reduced 5% rate. Starting in 2013, 25% of the income from new patented and non-patented innovation (before applying development cost) can be taxed at 5% with a cap at €25K profit annually.

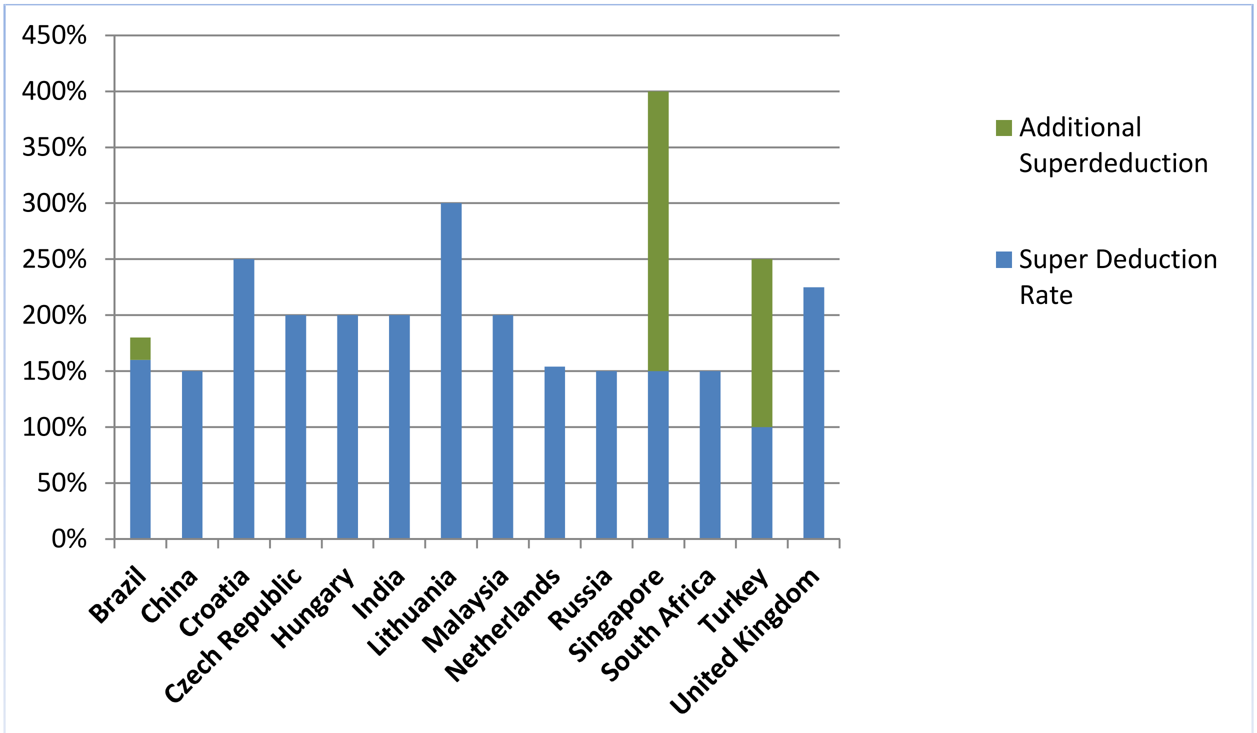
Treatment of income and expenses related to intellectual properties (IP) Cont.:

Country	Explanation
Portugal	50% of IP related income is exempt from taxable income.
Poland	A taxpayer can deduct from its tax base up to 50% of expenditures incurred for the acquisition of new technology in the form of intangible assets such as proprietary rights, licenses, rights under patents or utility models, know-how, that result in improvement of existing products/services.
South Korea	If an SME purchases 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 of 7% of the purchase price.
Spain	50% of IP related income is exempt from taxable income.
Turkey	Income earned from software development and other R&D activities in the Technology Development Zones are exempt from Income and Corporate Tax until 31 December 2023. Wages of researchers, R&D workers, and software workers in the zone is exempt from Income Tax. Income from technology services are exempt from VAT tax for the same period.
United Kingdom	IP income is taxed at the reduced rate of 10% (effective since April 1, 2013).

Countries offering research grants only:

Country	Explanation
Germany	Non-repayable cash grants for research projects awarded on a “per project” basis, usually for collaborative projects.
Mexico	Cash grants provided through 1) High Added Value Technological Innovation for Technological Research, Development, and Innovation (INNOVAPYME); 2) Development and Innovation of Precursor Technologies for Technological Research, Development, and Innovation (PROINNOVA); 3) Technological Innovation to Enhance Competitiveness for Technological Research, Development, and Innovation (INNOVATEC).

Jurisdictions offering super deductions:



Croatia: There are 4 different types of super deductions available depending on the type of qualifying activities.

UK: SME and non-SME have different super deductions available.

Quick Reference Table

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
Australia	Tax credit	1. Refundable tax credit of 45% of eligible expenditure incurred where aggregate gross receipts are less than $20M and is not controlled by exempt entities; or 2. Non-refundable tax credit of 40% of eligible expenditure incurred for all other entities.	Taxpayers must file the Application for Registration of R&D Activities within 10 months of the tax year end.	Excess credits are refundable if aggregate gross receipts are less than $20M. Any excess non-refundable R&D tax credits can be carried forward indefinitely, but not carried back.	No
Austria	Tax credit	10% volume-based tax credit on qualifying R&D related expenditures.	Beginning on or after 1 January 2012, review by Austrian Research Promotion Organization is required before applying for R&D tax benefit.	The benefit is refundable to the extent the credit exceeds the amount of the tax liabilities.	Annual €100K tax credit cap for expenditures related to subcontracted research for tax years beginning after 1 January 2012.
Belgium	Special deduction	1. A one-time deduction of 14.5% of all R&D investments or a current deduction of 21.5% of depreciation related to R&D assets. 2. Patent Income Deduction of 80% of qualifying patent income. 3. Partial Wage Tax Exemption allowing an 80% withholding for wages paid to researchers for R&D activities. 4. Elimination of tax and social security withholding requirements for certain companies granted temporary "innovation premiums". 5. Grants.	Taxpayer must file a claim for environmental certification though the regional authorities by 31 March to obtain benefits from the Investment Deduction.	Excess tax deductions may be carried forward indefinitely or converted into a tax credit refundable after 5 years.	No

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
Australia	Activities can be physically performed outside of Australia if approval is granted by Australian government by way of an advance filing and one of the following requirements is met:	At least 50% of total costs must be incurred in Australia.	No	No
Austria	Qualified activities must occur within Austria. Subcontractors must be based within the European Union or European Economic Area; however, the Austrian entity must fund the research endeavor.	Yes	No	No
Belgium	No	No	Must retain some associated IP.	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward	Cap/ Limitations on benefits
Brazil	Super deduction	1. 160% super deduction of the total R&D expenditures. 2. The super deduction increases to 170% of the qualified expenses if the entity increases the amount of researchers exclusively dedicated to R&D by 5% in a given year. 3. The super deduction increases to 180% of the qualified expenses if the entity increases the headcount of researchers by more than 5% in a given year. 4. Enhanced R&D tax super deduction for patents is an extra 20% deduction when a patent is registered. 5. Special depreciation/amortization for R&D assets.	Companies must have a tax clearance certificate to qualify for the super deduction.	Unused deductions may not be carried forward or carried back.	No
Canada	Tax credits	20% federal tax credit for all qualifying R&D costs. (15% after 2013). Enhanced refundable credits (35%) are available for qualified Canadian controlled private corporations. Tax credits are also available from provincial authorities.	No	Federal SR&ED investment tax credits are refundable on the first $3M of annual expenditures if earned by a small Canadian-controlled private corporation. The corporate group of companies must have less than $800K of taxable income and less than $50M in taxable capital in prior year to be eligible. Other unused credits can be carried forward 20 years (10 years in some provincial jurisdictions) and carried back 3 years.	No cap on non-refundable credits.

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
China	Super deduction and tax exemption	1. 150% super deduction of the qualifying R&D expenses. 2. VAT exemption/zero-rated treatment for certain R&D services performed for foreign entities. 3. Corporate tax rate for companies granted High and New Technology Enterprise (HNTE) status is reduced to 15%. 4. Newly established technology and software companies receive a tax holiday (and new established HNTEs in certain provinces may receive tax holidays). 5. Enterprise Income Tax exemptions for certain qualified technology transfers. 6. Qualified domestic and foreign invested R&D enjoy exemption on import duty, VAT and consumption tax on imports, and VAT refund on purchase of Chinese domestic equipment.	In order for the authorities to grant super deduction approval, they may consider whether IP will be retained in China; however, this is not required by law.	Tax losses attributable to R&D super deduction claims can be carried forward up to 5 years.	No
Croatia	Super deduction	1. Fundamental research project – 250% deduction of eligible expenses. 2. Applied research project – 225% deduction of eligible expenses. 3. Developmental research project – 200% deduction of eligible expenses. 4. Technical feasibility studies – 175% deduction of eligible expenses.	Companies must submit application form to Ministry of Science for approval of super deduction.	In case of loss generating company, incentive can be carried forward for 5 years.	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
Czech Republic	Super deduction and cash grants	1. 200% super deduction of qualified R&D costs. 2. Cash grant programs for research and development including CAPEX and OPEX investments. 3. Tax relief for 10 years of corporate income tax relief for investments in qualified areas.	No	If the deduction cannot be claimed in the year in which it arose (due to a tax loss or the deduction exceeding the annual tax base) the deduction (or remaining part thereof) may be carried forward and utilized within the next three taxable periods.	No
France	Tax credits, cash grants and accelerated depreciation	1. 30% tax credit for the first €100M of qualified R&D expenditures incurred during the tax year; plus an additional 5% of any amount in excess of the €100M threshold. 2. Cash grants for R&D and acceleration of depreciation deductions for fixed assets used in qualified research. 3. Innovation Tax Credit available to SMEs (companies with less than 250 employees and sales less than €50M) of 20% of qualifying expenses and capped at €400K.	No	If research tax credits are not utilized within 3 years, the taxpayer receives a refund for the unutilized credit. The refund rule was modified for 2005 – 2009 providing that unutilized credits were currently refundable. Research credits also remain refundable in 2010 for SMEs, new companies, young innovative companies and companies facing financial issues.	From 1 December 2011, cap on private subcontracted research equal to 3 times the other qualifying expenses (limit of €10M subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to €2M. €400K cap on Innovation Tax Credit.

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
Brazil	Yes	Yes	No	No
Canada	Generally research must be undertaken in Canada; however, 10% of eligible wages incurred outside of Canada may be claimed for the R&D tax credit.	Yes, generally.	No	No
China	Less than 40% of the activities qualifying for the HNTE may occur outside of China.	Yes	IP must be located in China for HNTE status.	High and New Technology Enterprise fields: 1. Electronic Information Technology; 2. Biological & New Medical Technology; 3. Aviation & Space Technology; 4. New Materials Technology; 5. New Energy & Energy Conservation Technology; 6. High Technology Service Industry; 7. Resources & Environmental Technology; and, 8. Transformation of Traditional Industries through High-New Technology
Croatia	No	No	No	No
Czech Republic	No	Qualified expenses must be tax deductable expenses of a Czech taxpayer.	No	No
France	100% of the qualified activity must occur within the European Union (as long as the expenditure is part of the company's tax base).	No	No	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
Germany	Non-repayable cash grants	R&D intensive entities may receive cash grants from the government, up to 50% of eligible project expenses. R&D loans are a possible alternative as well.	Large projects require EU notification (generally above €7.5M).	N/A	No
Hungary	Super deductions	1. 200% corporate income tax base super deduction. 2. 50% royalty deduction when IP is created as a result of R&D 3. Capital gains tax exemption for transfer/sale of qualifying IP. 4. Local business tax reduction. 5. Exempt for social tax and training fund contribution up to monthly HUF500K for certain corporations.	As of 1 February 2012, new request procedure requires submitting the claim to the Hungarian Intellectual Property Office (HIPO).	No	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
India	Super deductions	1. 200% super deduction for in-house R&D expenditures. 100% deduction if failure to qualify. 2. 125% - 200% super deduction for payment to research institutions. 3. Deduction of R&D employee salary and material consumed within 3-year immediately preceding the commencement of the business.	No	If the taxpayer is in a loss situation, unused benefits may be carried forward for 8 years.	No
Ireland	Tax credits and grants	1. 25% incremental credit for all expenditures exceeding the “base amount”. In 2014 this was increased to €300K. 2. 25% credit for expenditures incurred for buildings or structures used in the conduct of qualified R&D activities. 3. R&D grants are also offered. 4. From January 1, 2012, credits can be used to offset against R&D employees personal income tax liabilities.	No	Unused credits may be carried back 1 accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over 3 years), subject to certain caps.	Refunds are limited to the greater of the total tax paid by the company for the 10 years prior to the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the expenditures were incurred. Starting after 22 June 2011, the limit have been increased to include the payroll liabilities of the immediate preceding accounting period.

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
Germany	Yes	Yes	Yes, for the largest part.	No
Hungary	No	No	No	No
India	Yes	Yes	No	The 200% super deduction is limited to taxpayers in the business of bio-technology or manufacturing and producing products (other than products on the negative list such as alcoholic products, tobacco products, cosmetics, toothpaste, aerated waters using blended flavoring concentrates, confectionary, record players, projectors, office machines and apparatus, steel furniture, safes, latex foam, crown corks and caps for packaging).
Ireland	R&D activities must occur within Ireland or the European Economic Area. The credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted.	Yes – Costs must be incurred within the EEA (credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted).	No	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
Israel	Tax rate reductions and grants	1. Tax rate reductions though the Alternative Tax Program and Strategic Program. 2. Several grant programs are available.	Yes, for grants by applying in the European Commissions' Seventh Framework Programme (FP7).	N/A	N/A
Italy	Tax credits	1. R&D Tax Credit 2. 35% credit for eligible R&D employees related salary. 3. Salaries of employees involved in research activities are deductible for IRAP. 4. 25% credit for digital economy. 5. Tax credit for IST investments during 2013 through 2016.	The 35% credit must be claimed by filing an appropriate form.	No	No
Japan	Tax credits	1. The credit equals 8% to 10% of qualifying expenditures for large companies. 2. The credit equals 12% of qualifying expenditures for small and medium enterprises (SMEs). 3. Both SMEs and large companies are eligible for an Additional Incremental Credit. 4. In 2012, R&D centers are allowed 20% deduction of its income in the first 5 years of obtaining R&D center designation.	No. But taxpayer has to be a blue form tax return filer.	The carryforward period for unused credit varies from 1 to 3 years depending upon the tax period within in which they were earned.	The credit is limited to 20% of the company's national tax liability before credit is applied. The Additional Incremental Credit is limited to 10% of the company's national income tax liability.

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
Israel	Yes	Yes	No, but could be a factor in evaluating grant applications.	No, but could be a factor in evaluating grant applications. The following industries are generally favored more highly: 1. Pharmaceuticals 2. Software & hardware development 3. Energy & utilities
Italy	Not for ISTs.	Not for ISTs.	No	No
Japan	No	Yes	No	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward	Cap/ Limitations on benefits
Lithuania	Super deduction	1. 300% super deduction for qualified expenses. 2. Accelerated depreciation on capital assets used for R&D activities.	No	Companies incurring losses can carry forward eligible expenses for unlimited period of time.	No
Malaysia	Super deduction and allowances	1. ITA of 50% on qualified capital expenses for company conducting R&D. 2. ITA of 100% on qualified capital expenses for R&D service providers. 3. 200% super deduction.	Certain in-house projects must be pre-approved by the IRB before the 200% super deduction is permitted.	ITA - Any unutilized allowances can be carried forward to subsequent years until fully utilized.	Taxpayer can offset ITA against 70% of its income for each year of assessment.
Mexico	Grants	There are no tax benefits available, only R&D grants.	Grant application process	N/A	N/A
Netherlands	Super deduction and tax rate reduction	1. Wage Tax Credit of 35% (can be as high as 50% for start-up companies) of the first €250K in R&D wage costs and 14% for the remaining wage costs with a maximum reduction of €14M per taxpayer. 2. Innovation Box reduced tax rate for revenue attributable to patents and innovation. 3. Research and Development Allowance (RDA) allows 160% non-wage expense super deduction.	Yes, taxpayer must receive certification from the Dutch Government in advance.	No	Wage Tax Credit has a maximum reduction of €14M per taxpayer.
Poland	Tax deduction and grants	1. Development activities are 100% deductible. 2. R&D Centers can make monthly contributions to an "innovative fund" amounting to 20% of revenue which are then treated as deductible costs. 3. A company can deduct from its tax base up to 50% of expenditures incurred for the acquisition of new technology in the form of intangible assets. 4. Grants.	Yes, to obtain R&D Center status.	New Technology Tax Relief - Carryforward to the subsequent 3 tax years.	No

Country	R&D activities must occur in country	Costs must be incurred in country	IP Must be Retained in country	Industry eligibility restriction
Lithuania	For acquired technologies, it must be developed within EEA or countries with tax treaty with Lithuania.	No	IP must be retained by Lithuanian company.	No
Malaysia	Yes	Payments for technical services performed outside of Malaysia may qualify for the 200% super deduction when the amount expended is less than 70% of the total allowable expenditure for the super deduction.	No, but could be considered in government pre-approval process.	No
Mexico	Yes	Yes	No, but it's a factor considered in the grant issuance decision process.	No
Netherlands	Qualified activity must occur within the European Union.	Yes	Yes	No
Poland	No	No	No	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward	Cap/ Limitations on benefits
Portugal	Tax credit	1. Base rate: 32.5% of the R&D expenditure during the tax year. New Small and Medium Enterprises (SME) may benefit, under certain circumstances, from a special increase of 10% of the base rate. 2. Incremental rate: 50% of the incremental expenditure of the period, over the simple average of the two previous tax years, up to €1.5M.	Yes, applications are required to be submitted by the end of the 7th month after year-end.	The tax credit can be carried forward up to eight taxable periods.	The incremental credit is limited to €1.5M or to €1.8M (in the cases of expenses for recruiting Ph.D.'s).
Russia	Exemption and super deduction	1. 150% super deduction for certain R&D expenses. 2. Reduced social security contribution for companies involved in software development. 3. Reduced profit tax rate for Russian legal entities registered in a Technical and Innovation Special Economic Zone. 4. Special treatment for business operating in Skolkovo Innovation Center. 5. VAT exemption for certain incomes.	Yes, as required by Russian tax authorities.	Losses for tax purposes resulting from super deductions can be carried forward for 10 years.	Companies receiving reduced social security contributions can enjoy a reduced rate of 14% on annual remuneration up to a cap of RUB568K. Remuneration exceeding the cap is exempt.

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward	Cap/ Limitations on benefits
Singapore	Super deductions	1. 100% base deduction for qualifying R&D expenses incurred. 2. Additional 50% deduction for certain R&D expenses incurred in Singapore. 3. Additional 250% or 300% enhanced deduction on the first S$400K of certain R&D expenses. 4. 200% super deduction for certain expenses approved by government.	Government approval needed for 200% super deduction.	Unutilized R&D expenditures may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions. In lieu of tax deduction, there's an option to convert up to S$100K to cash grant at 60% for 2013-2015.	The combined total claims are capped at 200% of actual expenditures. However, this does not apply to R&D expenditures that qualify for the section 14DA enhanced deduction.
South Africa	Super deductions and accelerated depreciation	1. 150% volume-based super deduction. 2. Accelerated depreciation for R&D related capital expenditures.	Yes, pre-approval required from the Department of Science and Technology.	If the business is in a loss position, the benefit may be carried forward until utilized.	No

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
Portugal	No	Yes	No	No
Russia	No	No	No	No
Singapore	Yes - for 200% super and 14DA additional deductions. No – 14D base and 14DA enhanced deductions.	Yes - for 200% super and 14DA additional deductions. No – 14DA base and enhanced deductions.	No	No
South Africa	Yes	Yes	IP must be created in South Africa, but it does not need to be held within South Africa.	Typical eligible industries for the super deduction include, but are not limited to: 1. Pharmaceuticals 2. Software services 3. Software development 4. Design centers 5. Automotive 6. Energy & utilities 7. Mining & natural resources

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward	Cap/ Limitations on benefits
South Korea	Tax credits and reserve deduction	1. Tax credits for SMEs and large companies. 2. Investment tax credits. 3. R&D reserve deduction - 3% deduction of revenue from taxable income.	No	Unused credits may be carried forward 5 years (no refund).	Certain limitations apply to large company tax credits..
Spain	Tax credits	1. Volume and incremental tax credits for 25% of qualified expenditures. 2. Incremental credit equal to 42% of the amount of current year expenditures exceeding the average of the two previous years. 3. Credit for 17% of wages paid to qualified researchers dedicated exclusively to R&D. 4. R&D equipment credit used in qualified R&D. 5. Patent Box reduces the tax rate for income attributable to patent.	No	Unused credits may be carried forward for 18 years or take the to go above the limit under certain option.	If qualified R&D expenses exceed 10% of the tax due (after applying all credits), credits may not offset more than 50% of the gross tax due. If the amount does not exceed 10% of the tax due (after applying all credits), credits may offset 25% of gross tax due.
Turkey	Super deduction	1. 100% deduction of R&D expense from tax base if number of researchers exceeds 500. 2. If the number of full-time-equivalent R&D personnel exceeds 500, 50% of the R&D expenditures increase compared to the previous year can also be deducted. 3. 50% of the employer's share of the social security contribution premium is compensated for 5 years. 4. Income tax withholding incentives. 5. Exempt from stamp duty for R&D research papers. 6. Grants. 7. Technology development zone incentives.	Yes	R&D deductions can be carried forward indefinitely but the amounts are limited under a complicated formula set forth in the Tax Procedurals Law.	No

Country	Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward	Cap/ Limitations on benefits
United Kingdom	Super deduction and credit	1. 130% volume-based super deduction for large companies. 10% taxable credit (from 1 April 2013) 2. 225% volume-based super deduction for small/medium sized companies (SMEs). 3. Cash credits for loss position SMEs. 4. Patent Box.	No	Unused deductions may be carried forward indefinitely to offset against future profits of the same trade, unless there is a change in ownership and a change in the nature of the trade within 3 years. Loss position SMEs allowed cash credits.	SMEs relief is capped at €7.5M in excess of what their deduction would have been had it been a large company.
United States	Tax credits	1. 20% traditional credit or 2. 14% alternative simplified credit	No	Unused credits may be carried back 1 year and forward 20 years.	No

Country	R&D activities must occur in country	Costs must be incurred in country	IP must be retained in country	Industry eligibility restriction
South Korea	No, except for research subcontracted to academic institutions, which must be located in South Korea.	No	No	The R&D tax credits are not allowed for R&D service providers.
Spain	All qualified R&D must occur in Spain or a member state of the European Union or European Economic Area.	No, but in the European Union or European Economic Area.	No	No
Turkey	Yes	Yes	No	No
United Kingdom	No	No, but the related costs must be deductible in computing UK taxable profits in order to remain eligible.	No	No
United States	Yes	Yes	No	No

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