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2015 Global Survey of R&D Incentives

December 2015

Contents

Preface

The Global Survey of Research and Development (R&D) Incentives reflects the wide variety of tax and fiscal policies adopted by governments worldwide to promote business R&D. Most of the 34 Organization for Economic Co-Operation and Development (OECD) countries offer preferential tax treatment to R&D expenditure—including current deductions, allowances and credits, and accelerated depreciation of R&D capital expenditure. A number of countries have innovation or patent boxes, under which income attributable to intellectual property (IP) developed through R&D is taxed at favorable rates. In addition, all OECD countries offer R&D grants, loans or other fiscal incentives. For an in-depth analysis of the policy issues affecting research tax incentives, see the articles posted on the OECD web site www.oecd.org/sti/rd-tax-stats.htm, which provides detailed comparisons of different tax regimes for promoting R&D.

Many of the countries reviewed in this 6th edition of Deloitte's Global Survey of R&D Incentives have changed their laws or policies since the last edition in March 2014. There is no consistent global trend reflecting a movement toward curtailing or expanding R&D incentives. In fact, some countries expanded select incentives and curtailed others. The following is a brief review of the changes since March 2014, which demonstrates that many governments are continuing to search for the right mix of incentives to encourage the growth of R&D in their countries.

Many countries in this Global Survey have changed their laws or policies since the last edition was released in March 2014.

The following countries have expanded their R&D incentives since March 2014:

Austria—Effective on or after 1 January 2016, the tax credit rate will increase from 10% to 12%.

France—As from 1 January 2015, the tax credit rate for the innovation tax credit (ITC) increased to 40% for companies in French Overseas Departments. All other qualifying companies apply a 20% rate.

Ireland—The incremental tax credit converted to a volume-based credit on 1 January 2015. Previously, the credit was 25% of the amount exceeding total qualified expenditure incurred during 2003.

Italy—A new incremental R&D tax credit scheme was introduced for FY2015 through FY2019 that offers a 25% or 50% credit of the annual R&D incremental expenditure exceeding the average expenditure incurred during FYs 2012, 2013 and 2014 depending on the nature of the expenses incurred. Italy also introduced a patent box that provides a 50% tax exemption phased-in over a three-year period: (i) a 30% exemption for FY2015, (ii) a 40% exemption for FY2016, and (iii) a 50% exemption for FY2017.

Japan—The tax credit for special R&D costs was expanded for fiscal years beginning on or after 1 April 2015 to include royalty payments made to small and medium-sized enterprises (SMEs). This credit is increased to 30% of the special R&D costs where there is joint R&D with a university or pubic research institution, or where the R&D is contracted to such entities.

Latvia—As from 1 July 2014, a 300% super deduction is granted for eligible qualifying expenditure (previously 150%).

Mexico—Although R&D incentives were eliminated as part of the 2010 tax reform, funds have been allocated to extend R&D grant programs to provide direct cash subsidies for qualified R&D projects undertaken in 2014 and 2015.

Russia—For the period of 2015-2017, companies involved in developing software may qualify for reduced social security contribution rates.

Singapore—Changes in the super deduction under the Productivity and Innovation Credit scheme (PIC) affect the 250% (for Singapore-based R&D) or 300% (for non-Singapore-based R&D) deduction by raising the super deduction limit for SMEs to SGD 600K for 2015. The combined cap for the PIC enhanced super deduction was also raised for qualifying SMEs for tax years 2016 to 2018 to SGD 1.8M for SMEs over the three-year period.

Slovakia—Slovakia introduced a 125%-150% R&D super deduction effective for tax years beginning on or after 1 January 2015.

South Africa—Costs incurred in developing generic medicine and conducting related clinical trials qualify for the 150% super deduction. Although the law was changed in 2015, it applies to costs incurred from 1 October 2012.

Spain—A broader range of software development now qualifies for research tax incentives. Although such software development must be innovative, pilot projects related to the animation developed for video games are considered innovative.

Preface (cont.)

United Kingdom—The super deduction for SMEs was increased to 230% for qualifying expenditure incurred on or after 1 April 2015. The cash credit rates were increased for credits computed on qualifying expenditure incurred on or after 1 April 2015. The new credit rate for SMEs is 33.35% (32.63% before that date) and for large companies the new rate is 11% (10% before 1 April 2015).

The following countries have curtailed their R&D incentives since March 2014:

Australia— For expenditure incurred after 1 July 2014, a refundable volume-based tax credit of 45% of eligible R&D expenditure is available for small companies. A 40% non-refundable tax credit is available for all other eligible entities. The R&D tax incentive is available only at the above rates on eligible expenditure up to AUD 100M. R&D expenditure in excess of this cap is still claimable, but only at the relevant corporate income tax rate (30% for all taxpayers, except SMEs that are subject to rate of 28.5% effective 1 July 2015).

Japan—For fiscal periods beginning on or after 1 April 2015, the 12% research tax credit for SMEs is limited to 25% of the company's national corporation tax liability before the credit is applied (previously 30%). For fiscal years beginning on or after 1 April 2015, unused tax credits no longer may be carried forward (previously a one-year carryforward).

United Kingdom—From 1 April 2015, amounts incurred on consumables that are used in production trials, prototypes or "first-of-class assets" and later sold, or for which ownership is transferred, must be excluded from the claims. As from 31 March 2016, the 130% super deduction no longer will be available for large companies, i.e., the cash credit will be the only available expenditure-based research tax incentive.

The following countries reviewed have clarified their research-incentive laws since March 2014:

Brazil—In 2014, the Ministry of Science, Technology, and Innovation (MCTI) updated its electronic application form to provide guidance to claimants regarding information reporting. The MCTI also has re-structured its review process and formed a Technical Assistance Committee, comprised of technical specialists, to perform claim reviews for 2013 and later years.

Italy—The government specified the filing requirements that must be met to claim the 35% tax credit for hiring researchers.

Latvia—In 2015 guidance was issued to clarify the type of activities that are eligible for the super deduction.

Romania—Guidance issued in March 2015 clarifies the type of expenses that are eligible for research tax incentives and introduces documentation requirements to qualify for the incentives.

United States—Final regulations were issued in 2015 providing that taxpayers can elect the alternative simplified credit (ASC) on amended returns if certain requirements are met. Under prior law, taxpayers were required to elect the ASC on timely filed original returns. Final regulations were also issued in 2015 clarifying the type of supply expenditure incurred in R&D activities that qualify for current deductions. Proposed regulations were also issued in 2015 clarifying the requirements for claiming internal use software for the research credit. Taxpayers are permitted to apply the proposed internal use software rules for tax years ending on or after 20 January 2015. The new internal use software rules are intended to expand opportunities for taxpayers to claim research credits for software-related expenses.

The following countries have proposals that are likely to impact R&D incentives in the future:

Australia—Legislation has been proposed to reduce the research credit rates to 43.5% for SMEs (from the current 45% rate) and to 38.5% for all other companies (from the current 40% rate) effective 1 July 2014.

Greece—A presidential decree was expected in 2015 revising the definition of qualifying research expenses to align with the OECD Frascati Manual. The current political situation in Greece has put most of the incentives legislation on hold.

Netherlands—The current incentives providing super deductions (RDA) and wage tax relief (including reduced social security contributions) are expected to be changed for 2016. The new scheme will focus on wage tax reductions, but also will provide a super deduction that will be a 'below-the-line' incentive effective as from 2016. Details are expected to be published shortly.

Poland—The government intends to introduce tax relief for R&D activities in the form of a super deduction. The new tax relief is expected to be introduced no sooner than in 2016 and details have not yet been finalized. Furthermore, Poland is currently developing new programs for support of R&D to be financed from EU funds during the period 2014–2020.

South Korea—Proposed legislation for 2015 would reduce the tax credit for investment in R&D facilities by reducing the credit rate for large corporations from 3% to 1% and for SMEs from 5% to 3%. The revised rule would be effective for investments made on or after 1 January 2016.

Preface (cont.)

Spain—The following changes have been proposed to the patent box regime and, if adopted, would be applicable from 1 July 2016:

- The requirement that a company's stake in the creation of the intangible asset must be at least 25% would be abolished.
- The fixed 60% exemption would remain applicable for entities that created the intangible asset, but would be proportionally reduced for entities that did not fully create the intangible.

United States—Although the research credit provision expired on 31 December 2014, there is extensive support for extending the credit through 2015. The credit provision has been extended 17 times since it was signed into law in 1981. Draft legislation for an innovation box was proposed in July 2015 that would offer about a 10% tax rate on income attributable to innovations.

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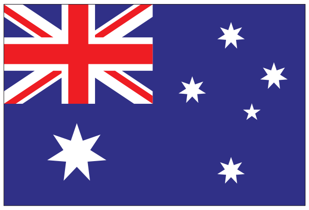
The information contained in this survey is current as of 1 December 2015, but is subject to change.

If you have any questions about the incentives described for any of the countries, do not hesitate to contact the leader of Deloitte's Research & Development and Government Incentives practice group for the particular country. The contact information for the leader of each practice group is included with the description of each country's incentives.

Australia



Australia offers volume-based tax credits ranging from 40%–45%, but proposed legislation may reduce the current rates.

Background

The standard corporate income tax rate is 30%, although the rate for small businesses (defined below) is reduced to 28.5% (effective 1 July 2015).

Nature of incentives

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

- A refundable volume-based tax credit of 45% of eligible R&D expenditure is available for small companies, i.e., companies with gross receipts of less than AUD 20M that are not controlled (>50%) by exempt entities. Receipts of connected and affiliated entities are taken into account in determining the gross receipt threshold. Small companies that report the tax credit cannot deduct the qualifying expenditure included in calculating the tax credit.
- A 40% nonrefundable tax credit for all other eligible entities.

Effective 1 July 2014, the R&D tax incentive is claimable only at the above rates on eligible expenditure amounts up to AUD 100M. R&D expenditure in excess of that amount is claimable, but only at the relevant corporate income tax rate.

Excess nonrefundable 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 may be reduced by certain amounts of non-taxable income.

Eligible industries and qualifying costs

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

Qualifying expenditure may include staff costs, direct costs, overhead, supplies, tax depreciation and certain capital expenditure on activities that are defined as core or supporting R&D activities. Interest payments and building costs are specifically excluded. Fees paid to contractors to perform research on the taxpayer's behalf are qualified research expenses as long as the work performed by the contractor is directly related to the R&D activities.

Research credits are adjusted to account for government grants used to fund qualified research. If the funding is for an R&D expenditure made by the taxpayer, then 200% of the amount of the grant is treated as funding the research and reduces otherwise qualified research expenses.

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

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

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

IP and jurisdictional restrictions

Multinational companies can take advantage of the Australian R&D tax incentive provisions in a number of cross-border situations. For tax years commencing on or after 1 July 2011, and where certain conditions are satisfied:

- Australian-based R&D activity can be funded by related overseas companies;
- IP rights relating to eligible R&D activity generally do not need to be retained in Australia; and
- Up to 50% of the total project costs of R&D activities can be physically performed outside Australia and remain eligible for benefits if an advanced overseas finding has been approved by the government.

Other concerns

Legislation has also been proposed to reduce the research credit rates for small businesses from 45% to 43.5%, and for all other taxpayers from 40% to 38.5%. The proposed legislation, if passed in its present form, would be effective from 1 July 2014.

Contact:
Jason Dunnachie
Deloitte Australia
jdunnachie@deloitte.com.au
+612 9322 3678

Australia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credit	1. Refundable tax volume-based credit of 45% of eligible expenditure incurred where aggregate gross receipts are less than AUD 20M and company is not greater than 50% controlled by exempt entities; or 2. Nonrefundable tax credit of 40% of eligible expenditure incurred for all other entities.	Taxpayers must file an application for registration of R&D activities within 10 months of the tax year end.	A refundable tax credit is available for SMEs in an amount equal to 45% of the eligible R&D expenditure (but the expenditure is not deductible). SMEs have gross receipts of less than AUD 20M (affiliated companies are considered) and are not controlled (>50%) by exempt entities.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Up to 50% of the total project costs of R&D activities can be physically performed outside Australia and remain eligible for benefits if an advance overseas finding has been approved by the government.	No	No	No

Austria

Austria's volume-based tax credit is increasing from 10% to 12% for fiscal years commencing on or after 1 January 2016.

Background

The corporate tax rate is 25%.

Nature of incentives

Research tax credit: One of the incentives offered in Austria is a 12% volume based tax credit (10% for fiscal years commencing before 1 January 2016). There is no cap on the amount of in-house R&D expenditure eligible for the credit. The R&D tax credit is refundable to the extent the credit exceeds the amount of the company's tax liabilities. Consequently, the research credit can provide the equivalent of a cash grant for companies in a tax loss or low profit position.

Rate adjustments: For income from royalty payments related to self-developed intellectual property (IP) or capital gains from sale of self-developed IP, the tax rate is reduced by half for individual taxpayers (but 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 Organization for Economic Co-operation and Development (OECD) Frascati Manual. Thus, software development also can 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 for the purpose of increasing knowledge and/or developing new applications. The R&D tax credit is also available if the R&D project is a failure or is terminated before reaching a successful conclusion.

Qualifying expenditure includes: capital investment, finance costs, staff costs, overhead, leasing costs, and subcontractor fees.

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

Grants and subsidies received by the taxpayer that are exempt from Austrian corporate income tax reduce otherwise qualified research expenses.

IP and jurisdictional restrictions

The application for an expert opinion by the Austrian Research Promotion Agency is required for research credits relating to tax years beginning on or after 1 January 2012, evaluating the technical eligibility of the R&D activities performed. The application must be submitted electronically after the end of the fiscal year in which the tax credits would apply. Although the taxpayer must apply for the expert opinion by the filing date for the tax return, the expert opinion does not have to be obtained before the taxpayer can claim the credit on the tax return. A special expert opinion by the Austrian Research Promotion Agency will be issued confirming that the legal requirements for credit eligibility are fulfilled with respect to a particular R&D endeavor. However, the decision to grant the R&D tax credit to the tax payer still remains at the responsible tax office, which will only use expert opinion as a reference. Alternatively, the taxpayer can seek a pre-approval for future R&D endeavors covering the current year and up to three future fiscal years. In this case, a fee of EUR 1K must be paid. Existing patent protection of the results of the R&D activities or proof of the success of the R&D work is not required, nor are any restrictions imposed on the location of the IP. Research activities must be conducted in Austria. Subcontracted research must follow management and direction from an Austrian business or branch or a permanent establishment (PE) in Austria and the subcontractor must be based within the EU/EEA.

Austria's refundable tax credit must be evaluated by the Austrian Research Promotion Agency and the responsible tax office.

Other concerns

Attractive grant programs exist for companies in the materials and production, energy and environment, life sciences, information and communication technology, mobility and safety and security, and human resources sectors.

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

Contact:
Herbert Kovar
Deloitte Austria
hkovar@deloitte.at
+431 53700 3600

Austria (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credit	12% volume-based refundable credit on all qualifying R&D-related expenditure to the extent credit exceeds the amount of tax liabilities 10% for fiscal years commencing before 1 January 2016). Tax rate is reduced for income from royalty payments related to self-developed IP or capital gains from the sale of self-developed IP for individual taxpayers.	Technical evaluation from Austrian Research Promotion Agency required for research credits relating to tax years beginning on or after 1 January 2012.	Excess credits are refundable to the extent that credit exceeds amount of tax liabilities.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
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.	Cap on subcontracted research expenditure of EUR 1 M annually, with a maximum credit of EUR 120K (100K for fiscal years commencing before 1 January 2016).	No	No

Belgium

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

Background

The general corporate tax rate is 33.99%.

Nature of incentives

R&D super deduction: As from 1 January 2014, a taxpayer may elect a 13.5% one-time deduction of all R&D investments recorded on the balance sheet (tangible and intangible) or 20.5% of the total depreciation amount for the same R&D investments (i.e., the taxpayer computes the depreciation amount and multiplies this amount by 20.5%). This deduction is granted in addition to the standard depreciation deduction for such expenses, resulting in a super deduction of 120.5% of the amount of depreciation for capital assets, etc. used during the research process. Excess deductions may be carried forward indefinitely or converted into a tax credit that may be refunded if not utilized after five years. The above rates are reviewed annually.

Patent income deduction (PID): The 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: An 80% withholding exemption is granted to a company for wages paid to qualifying researchers working on R&D projects. Eligible employees must have a masters degree or above 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. The diploma requirements do not apply in certain circumstances (i.e., young innovation company or university research agreement), and there are exemptions for expatriates working in R&D.

Accelerated depreciation: Assets used in R&D may be depreciated over three years.

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

The regional government may offer cash grants for R&D-intensive entities, which can cover up to 80% of total project expenditure depending on the location of the project, the type of R&D activities and the type of funding instrument. Regional cash grants generally are not taxable. Specific wage tax exemptions apply to night or shift work independently of R&D activities.

Eligible industries and qualifying costs

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

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

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

IP and jurisdictional restrictions

The R&D super deduction may be claimed for R&D work performed outside Belgium; but the claimant must retain some associated IP in Belgium to receive the tax benefit.

There is no IP ownership requirement for the partial wage tax exemption.

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

Other concerns

A taxpayer must file a claim an environmental certification from the regional authorities by 31 March and obtain a certificate from the region in which the qualified activity takes place.

As from January 2014, the partial wage tax exemption is applicable only to new projects that have been submitted for notification to the Belgium authorities.

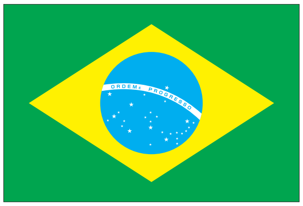
Contact:
Patrick Brauns
Deloitte Belgium
pbrauns@deloitte.com
+322 600 6662

Belgium (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction (can be converted into a refundable credit), patent box, wage tax exemptions, accelerated depreciation	1. A one-time deduction of 13.5% of all R&D investments or a current deduction of 20.5% 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. Accelerated depreciation is used for assets used in R&D.	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. The partial wage tax exemption is applicable only to new projects that have been submitted for notification to the Belgian authorities.	Excess tax deductions may be carried forward indefinitely or converted into a tax credit that may be refundable if not utilized after five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	Must retain some associated IP	No

Brazil



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

Background

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

Nature of incentives

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

Enhanced super deduction: If the entity increases the number of researchers dedicated exclusively to research projects by up to 5% in a given year, the super deduction increases to 170%, and if headcount increases more than 5% in a given year, the super deduction increases to 180% of the qualifying expenses. Employees who relocate internally to work exclusively on qualified research projects also may be taken into account in calculating the increase in the number of researchers.

Enhanced super deduction for patents: An extra 20% deduction is allowed for the qualifying costs incurred in developing a patent, but the super deduction is granted only if a patent is registered. Since the taxpayer's eligibility for claiming the super deduction is delayed until the patent is registered, few taxpayers take advantage of this provision.

Unused deductions may not be carried forward or back.

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

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

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

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

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

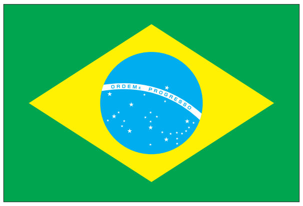
Professionals Partially Dedicated to R&D—Taxpayers need to adjust the employment contracts for the employees that are partially dedicated to research projects, in order to specifically indicate that the employees work as researchers in technological innovation projects. If this procedure is not adopted by the company, the expenses connected with the employees that are partially dedicated to R&D may not be included in the R&D tax incentive calculation.

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

- Contracts with service providers, provided the hiring company assumes the responsibility, enterprise risk management and control of project expenditure.
- Payments made to small businesses for the implementation of research projects, even if the subcontracted party participates in the profitability of the projects' final economic results.
- Companies are allowed to claim part of the qualified expenses amounts incurred for contracted technical services, such as laboratory trials and testing, provided the taxpayer does not participate in the execution of the services (even if partially).
- Expenses related to the support of administrative and indirect services are not eligible, even if they can be associated with a research project. Such expenses include security, cleaning, maintenance, library and documentation services, as well as coordination, administration and financial monitoring of research projects.

Contact:
Flavia Crosara
Deloitte Brazil
flaviacrosara@deloitte.com
+551 93707 3124

Brazil (cont.)



IP and jurisdictional restrictions

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

Other concerns

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

Specific accounting controls are also required, i.e., the chart of accounts must present specific accounts indicating the R&D expenditure. Recent communications from Brazilian IRS require 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 specific way all expenditure incurred.

In 2014, the MCTI (Ministry of Science, Technology, and Innovation) reviewed its electronic application form to provide more detailed guidance to claimants on the presentation of the information on the form, and implemented a more organized review process to inform claimants about their claim status. At the end of 2014, MCTI appointed the CAT (Technical Assistance Committee), a group consisting of technical specialists, to perform technical reviews of the claims as from 2013. The committee process reviews the alignment of the nature and costs of the activities claimed.

Brazil also provides the following additional research incentives:

- Equipment, machinery and tools used exclusively for R&D may be deducted at the time the expense is paid or incurred. However, if assets initially acquired for use in R&D activities are later sold or used for other activities, the expense paid or incurred should become deductible when the assets are sold or transferred to another area (non-R&D related).
- Equipment, machinery and tools acquired exclusively for R&D by IT companies and companies engaging in automation activities that benefit from a specific reduction in the IPI (see below) can take a super deduction on the cost of such equipment.
- Equipment, machinery, and tools that are used exclusively for R&D receive a 50% reduction of the IPI (federal excise tax) due. This incentive must be claimed at the time the research-related equipment, machinery, or tools are acquired.

Brazil (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, accelerated depreciation and excise tax exemptions	1. Super deductions of 160%-200%. 2. Special depreciation/ amortization for R&D assets. 3. Certain deductions related to equipment, machinery, and tools exclusively acquired and dedicated to R&D activities. 4. IPI reduction (federal excise tax) on equipment, machinery and tools dedicated to R&D.	Companies must have a tax clearance certificate to qualify for the super deduction.	Unused deductions may not be carried forward or carried back.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	No	No

Canada

Canada offers volume-based credits ranging from 15%–35%, including refundable credits for Canadian-Controlled Private Corporations.

Contact:
Albert De Luca
Deloitte Canada
ADeLuca@deloitte.ca
+514 393 5322

Background

The combined federal and provincial corporate tax rate on business income is between 11% and 31% in 2015. The tax rate depends on the size of the corporation, ownership, and the province in which a company is located. Scientific Research and Experimental Development (SR&ED) tax credits are available to taxpayers for eligible R&D work carried on in Canada. These credits can be used to reduce federal and provincial taxes payable. In some cases, the credit is refundable.

The SR&ED tax credit is legislated in the Income Tax Act and administered by the Canada Revenue Agency (CRA). SR&ED claims are submitted as part of the claimant's tax return and must be filed using prescribed forms and schedules. Strict filing deadlines apply (18 months after the end of the taxation year for corporations; no extensions are allowed).

Nature of incentives

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

SR&ED deductions: Eligible SR&ED current expenditure is added to a separate tax pool that carries forward from year to year. Capital expenditure is not eligible for SR&ED treatment after 31 December 2013. At the end of the year, all or a portion of the pool can be deducted in the year, with any unclaimed balance carried forward indefinitely to be deducted in future years.

Investment tax credits (ITC): After 31 December 2013, federal investment tax credits are earned at 15% of qualified expenditure. Prior to this date, the rate was 20% of qualified expenditure. These credits can be used to offset federal tax liabilities in the taxation year. Unused credits can be carried forward 20 years and carried back three years.

Refundable ITCs: Small Canadian-Controlled Private Corporations (CCPCs) earn refundable investment tax credits at a rate of 35%. The federal SR&ED program does not offer refunds to foreign controlled or public corporations.

Refundable credits are available for the first CAD 3M of qualified expenditure per year (expenditure limit). Tax credits on expenditure over the expenditure limit are calculated at a basic rate of 15%. Only a 40% portion of the 15% refundable credit is allowed on expenditure that exceeds the expenditure limit.

The expenditure limit must be shared by all corporations in an associated group. The maximum expenditure limit of CAD 3M for the associated group is reduced pro rata if taxable income exceeds CAD 200K and taxable capital employed in Canada (TCEC) exceeds CAD 10M. If taxable income reaches CAD 800K or TCEC reaches CAD 50M, the expenditure limit is eliminated and the company no longer qualifies for refundable credits. These amounts are based on the results of the prior year.

As noted above, there is an annual cap on refundable credits, but there is no cap on the total amount of nonrefundable credits available through SR&ED incentives.

Provincial SR&ED incentives: Provincial ITC rates range from 4.5% (Ontario) to 30% (Quebec). Many provinces offer refundable or partially refundable credits.

Enhanced provincial tax credits are available for research conducted by universities, research centers, and research consortia. Special federal and provincial tax credits exist for selected industries including interactive digital media, video game development, film and television, and industries involved in the development of new technologies that address issues of climate change, clean air, and water and soil quality.

All SR&ED 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 credits are taxable in the year the claimed expenditure is incurred, regardless of whether or not the credit is refunded or applied to offset taxes.

Some restrictions apply to carry forward balances, including restrictions on use of the preacquisition pools of SR&ED expenditure and ITCs after an acquisition of control of the taxpayer corporation.

Canada (cont.)

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 to advance technologies, to address known scientific or technological obstacles, and to incorporate a systematic investigation or search by qualified personnel. Qualifying activities include the following:

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

Although "shop floor R&D" may be eligible, commercial production and routine development are not.

The SR&ED claim must be substantiated by contemporaneous documentation that supports the project as "systematic investigation or search" through a process of experimentation or analysis for the purpose of resolving a problem that cannot currently be addressed with known technologies. A company must be prepared to provide supporting documentation when its claim is reviewed by the tax authorities.

Qualified R&D expenses include salaries and wages for employees in Canada, materials (consumed or transformed in the course of the SR&ED), 80% of the cost of subcontracted SR&ED performed in Canada by Canadian taxable suppliers, incremental overhead (or a proxy amount in lieu of overhead (see below), payments to Canadian universities, colleges, and consortia. Special computation rules apply for contract SR&ED to prevent duplicate claims by Canadian companies.

Recent changes to the SR&ED program in Canada

A number of changes to the SR&ED program took effect in 2013 and 2014:

- The federal ITC rate was reduced from 20% to 15% on 1 January 2014.
- Capital expenditure and lease payments were excluded from the program for property acquired and available for use after 31 December 2013. This applies to shared use equipment, as well as the capital portion of third-party payments.
- The prescribed proxy amount for overhead was reduced from 65% of salary costs of directly engaged labor to 60% for 2013, and 55% for years after 2013.
- Qualifying expenditure to arm's-length contractors was limited to 80% of the contract payment for expenditure incurred after 31 December 2012.
- Claim preparer information requirements and penalties were introduced for missing or incomplete information.

IP and jurisdictional restrictions

The SR&ED program does not impose any restrictions on the ownership of IP that may be produced by the R&D, although the Canadian company must have the right to exploit the results of any subcontracted research.

Research generally must be undertaken in Canada to qualify as SR&ED; 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 holidays for revenue earned from patents. These incentives apply to provincial taxes on income earned from assigning and licensing a qualified patent to a nonresident. Income derived from selling goods and/or providing services related to a qualified patent also are eligible.

Other concerns

Taxpayers must submit detailed information on prescribed forms in order to claim the federal R&D credit. Provincial credit forms are also required for each jurisdiction of the claim. The deadline for filing research credits is 18 months after the end of the company's tax year. No extension to this deadline is available, and incomplete claims will be rejected if not corrected before the 18 month deadline. Prescribed Form T661 requests detailed technical information for each eligible project (pre-approval is not required).

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

Canada (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits	1. 15% federal tax credit for all qualifying R&D costs. 2. Small Canadian-controlled private corporations (CCPCs) earn refundable investment tax credits at a rate of 35%. 3. Tax credits also are available from provincial authorities.	No	Federal SR&ED investment tax credits are refundable on the first CAD 3M of annual expenditure if earned by a small CCPA. The CCPA of companies must have less than CAD 800K of taxable income and less than CAD 50M in taxable capital in prior year to be eligible. Other unused credits may be carried forward 20 years (10 years in some provincial jurisdictions) and carried back three years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Research generally must be undertaken in Canada, but 10% of eligible wages incurred outside of Canada may be claimed for the R&D tax credit.	No cap on nonrefundable credits.	No	No

China

China offers a 150% super deduction and favorable tax rates for qualifying companies.

Background

The enterprise tax rate is 25%. China offers a variety of tax and other R&D incentives. The R&D incentives are offered in the form of income tax deductions and reductions in Enterprise Income Tax (EIT) rates.

Nature of incentives

Super deduction: A tax deduction equal to 150% of the qualifying R&D expenses is available. Tax losses attributable to R&D super deduction claims can be carried forward up to five years.

Rate reduction: A reduced 15% enterprise tax rate is available for companies granted High and New Technology Enterprise (HNTE) status. HNTE status must be applied for and renewed every three years.

Qualified newly established HNTEs in special zones often are granted a tax holiday.

HNTE companies are eligible for a 150% super deduction for qualified R&D expenses in addition to the reduced enterprise tax rate.

The reduced rate of 15% also applies to Technology Advanced Service Enterprises, i.e., enterprises that are located in designated cities, derive more than 50% of their annual revenue from technologically advanced services and meet certain other requirements. This incentive has been extended through 31 December 2018.

Tax exemption: A value added tax (VAT) exemption/zero-rated treatment for certain R&D services performed for foreign entities is also provided. Moreover, a VAT exemption for offshore outsourcing services has been extended through 31 December 2018.

R&D centers that have qualified foreign investment may be eligible for an exemption from import duty, VAT and consumption tax on the import of equipment and other R&D assets. This incentive is available through 31 December 2015.

R&D centers may claim a refund of VAT paid on the purchase of Chinese domestic equipment. This incentive is available through 31 December 2015.

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

Tax incentives for technology/software companies:

- The first CNY 5M of income from qualified technology transfers is exempt from EIT.
- Income from technology transfers in excess of CNY 5M is taxed at a 50% reduced EIT rate.
- Newly established software companies often are granted tax holidays.
- Taxable software companies may be granted a business tax exemption on qualified income.
- Qualified software companies may be eligible for an exemption of import duties on self-used equipment and materials.

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

Qualified activities include the development of new technology, new products, and new production techniques. Qualifying expenditure includes 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 be incurred outside China. The IP must be located in China.

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

Contact:
Finny Fei Cao
Deloitte China
fcao@deloitte.com.cn
+861 08520 7525

China (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction and tax exemption	1. 150% super deduction for 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 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. EIT 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.	Generally, government approval is needed for all government incentives. HNTE status must be renewed every three years.	Tax losses attributable to R&D super deduction claims can be carried forward up to five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Less than 40% of the activities qualifying for the HNTE status may occur outside of China.	No	IP must be located in China for HNTE status. In determining whether to grant approval for the super deduction, the authorities may consider whether IP will be retained in China, but this is not required by law.	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

Croatia offers super deductions at rates ranging from 175%–250%.

Background

The corporate income tax rate 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 projects: 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 activities undertaken to expand scientific knowledge and know-how (not linked with any industrial and/or commercial goals).

Applied research: includes planned research or critical exploration to acquire new knowledge that may be used in the development of new products, production processes or services, or for significant improvements in 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 for sale or use, including the manufacture of prototypes. In addition, development research may include conceptual planning and modeling of alternative products, production processes or services, as well as the first demonstration of pilot projects, provided those projects cannot be redesigned or used for industrial application purposes of 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 such alterations represent improvements.

Technical feasibility studies: include 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.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries.

Eligible expenses include:

- Employee salaries directly involved in the research.
- Raw materials including packaging, spare parts, inventory used, energy consumed, materials and parts for the maintenance of machinery 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.
- The portion of the depreciation expenses allocable to property, plant and equipment used in research.
- The amortization of the costs incurred to acquire patents used in research.
- License fees paid to use technology in qualified research.

Other costs will also qualify for the super deduction if they are necessary for research and can be reasonably and consistently allocated directly to research, such as professional liability insurance, overhead costs to insure equipment and personnel, and rentals and membership fees for scientific organizations related to the research activity.

IP and jurisdictional restrictions

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

Other concerns

An application form must be submitted to the Ministry of Science to obtain 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). The application form must be submitted before the end of the financial year in which the project commences.

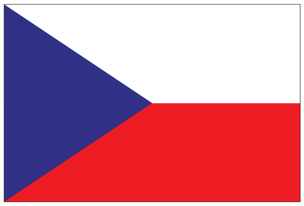
Contact:
Sonja Ifkovic
Deloitte Croatia
sifkovic@deloittece.com
+385 1235 1915

Croatia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
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 a loss generating company, incentive can be carried forward for five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No

Czech Republic



The 200% super deduction offered in the Czech Republic can be carried forward for three years if it cannot be utilized in the year the qualified research expenses are incurred.

Background

The corporate income tax rate for 2015 is 19%. The Czech Republic offers a super deduction for costs incurred for qualified research activities.

Nature of incentives

Super deduction: A deduction equal to 200% of the costs incurred during the implementation of R&D projects is available.

Tax relief: Corporate income tax relief is available for 10 years for investments in technological centers and strategic service centers under the amended Investment Incentives Act effective from July 2012.

Other non-tax related R&D incentives: There are cash grant programs for R&D, including capital expenditure (CAPEX) investment or operating costs (OPEX).

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

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

Eligible industries and qualifying costs

The basic criteria that distinguish R&D from other activities are the presence of a measurable element of novelty and clarification of research or technical uncertainties. These 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 taxpayer had no information on its existence at the time the project was undertaken. The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual.

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

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, costs related to financial leasing, the subsequent purchase of such leased assets, expenses for books and magazines, electricity, heat, gas, telecommunications, and water and sewage rates). Purchased R&D and contract research services generally are not qualified research expenses. There is an exception, however; R&D services provided by public universities and public research institutions. The super deduction excludes expenses paid for with government and public subsidies.

IP and jurisdictional restrictions

The IP created through qualified research need not be registered under the name of the taxpayer that is claiming research tax incentives. 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 project starts. The summary is part of the mandatory internal documentation that must be completed, but does not have to be submitted with the annual tax return. This summary may, however, be reviewed during a tax audit. The summary typically includes the following: description and objectives of the project; project schedule and phases, project administrative process, project staffing, and project budgets.

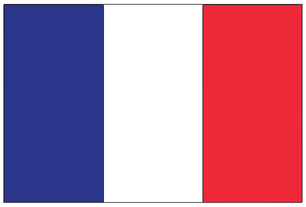
Contact:
Ludek Hanacek
Deloitte Czech Republic
lhanacek@deloittece.com
+420 246 042 108

Czech Republic (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction and cash grants	1. 200% super deduction of qualified R&D costs. 2. Cash grant programs for R&D including CAPEX and OPEX investments. 3. 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.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No

France



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

Background

The effective corporate income tax rate ranges from between 33.33% to 38%.

France offers an R&D tax credit that is volume-based and may be carried forward for three years. To the extent the credit is not utilized within the three-year period, the taxpayer is entitled to a refund. SMEs, new companies, young innovative companies and companies with financial issues can request an immediate refunds of unutilized credits.

Nature of incentives

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

A company eligible for a R&D tax credit for the first time or that was not eligible for the tax credit within the past five years also can benefit from an enhanced R&D tax credit rate of 50%, which is applicable during the first year and reduced to 40% for the second year (provided the company is not related to other companies who have claimed the R&D tax credit in the five preceding years).

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

An innovation tax credit was introduced for SMES (i.e., companies with fewer than 250 employees and sales revenue of less than EUR 50M) on 1 January 2013 for downstream activities, such as expenditure for new prototypes or pilot assets. The credit rate is 20% (40% for companies in French Overseas Departments as from 1 January 2015), and the amount of qualifying expenses is capped at EUR 400K.

Income from licensing (and the sub-licensing of eligible IP rights as from 2011) or the sale of patent or patentable technology are taxed at a reduced rate of 17%, provided the technology was owned by the French company for at least two years (the sale of technology to related parties is excluded from the benefit of the 17% rate). Moreover, for the French licensee, the royalty fee is deductible at the standard corporate income tax rate (unless the licensee does not effectively exploit the IP rights).

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. To qualify, R&D activities must:

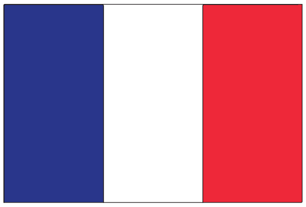
- Present a significant technological, technical or scientific advancement when compared to the then current state of the art.
- Be associated with scientific/technological uncertainties and uncertain with regard to the anticipated outcome.
- Require the use of scientific methods and/or an experimental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

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

Research credits can be claimed by contractors performing research on a time/materials basis because there is no at-risk rule under French law. The following limits apply to the amount of qualifying contract research expenses: (i) there is a cap on private subcontracted expenses equal to three times all other qualifying expenses, but in no event can the subcontracted R&D fees exceed EUR 10M; and (ii) qualifying contract research is limited to EUR 2M where the taxpayer and the subcontractor are related entities.

Contact:
Thomas Perrin
Deloitte France
tperrin@taj.fr
+331 55 61 69 48

France (cont.)



IP and jurisdictional restrictions

All of the qualifying activities must take place within the EU (provided 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 request government pre-approval of projects, although this is not required to benefit from any of the incentives. Taxpayers also can apply for contractor certification from the Ministry of Research. Payments made to certified contractors are treated as R&D expenditure. Companies with R&D expenses exceeding EUR 100M must comply with documentation requirements. Failure to comply with the documentation requirements may result in penalties.

France (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits, cash grants accelerated depreciation, and patent box	1. 30% tax credit for the first EUR 100M of qualified R&D expenditure incurred during the tax year. For qualified research expenditure above this EUR 100M threshold, the rate is reduced to 5%. 2. Cash grants for R&D and acceleration of depreciation deductions for fixed assets used in qualified research. 3. An additional credit is offered to SMES for specified downstream activities, such as the development of new prototypes or pilot assets. 4. A patent box offers a reduced corporate tax rate of 17% for income from licensing or selling patents or patented technology provided the IP was owned by the French company for at least two years (the sale of technology to related parties is excluded from the benefit of the 17% rate).	No	If research tax credits are not utilized within three years, the taxpayer receives a refund for the unutilized credit. SMEs, new companies, young innovative companies and companies with financial issues can request an immediate refunds of unutilized credits.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
100% of the qualified activity must take place within the EU/EEA, provided the expenditure is part of the company's tax base.	The cap on private subcontracted research equals three times other qualifying expenses (limit of EUR 10M subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to EUR 2M. A EUR 400K cap on the ITC.	No	No

Germany

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

Background

The corporate tax rate generally is 15%, in addition to a 5.5% solidarity surcharge levied on corporate income tax (i.e., effective tax rate of approximately 15.8%). Municipal trade tax is imposed at rates usually between 7% and 17% (an average of 14%), with rates determined by the municipalities. The effective combined income rate (i.e., corporate income tax, trade tax and the solidarity surcharge) averages 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 average at 50% of eligible project costs, although higher rates may be possible for SMEs.

The selection criteria for eligible projects include:

- Extent of innovation;
- Extent of technical risk; and
- Extent of economic risk.

R&D loans are 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 (e.g., the ERP Innovation Program offers 100% financing of eligible R&D project costs up to EUR 5M).

R&D tax incentives are not yet offered, but the introduction of such incentives 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
- Information and Communication Technology (ICT)
- Manufacturing, including automotive
- Energy and utilities

While no industry is expressly ineligible for grants, there are rarely grant opportunities for:

- Banks and companies in financial services
- Insurance companies

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

Qualifying activities include the following:

- 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 generally must occur in Germany. Moreover, the IP created through the research must remain in Germany.

Other concerns

Attractive grant programs exist for projects related to energy efficiency, CO2 reduction, and renewable energy. Improving the energy efficiency of industry, in particular, has become a focus of the authorities, with more funds allocated to projects related to process innovation in those areas.

Contact:
Thomas Northoff
Deloitte Germany
tnorthoff@deloitte.de
+49 89 2903 68566

Germany (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Non-repayable cash grants	No income tax incentives are offered under German law, but grants are awarded for eligible project costs. Grant rates average about 50% of eligible project costs, although higher rates may be possible for SMEs.	Large projects require EU notification.	N/A

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	Yes	No

Greece

Greece offers a 130% super deduction, as well as a patent box.

Background

The corporate tax rate in Greece is 29%.

Greece offers R&D super deductions and various indirect incentives to promote investment in innovative projects.

Nature of incentives

Greece offers the following R&D incentives:

Super deduction: Taxpayers are provided a 130% super deduction for eligible expenses incurred in scientific and technological research activities. Capital assets used in research activities can be depreciated over three years.

Tax relief for income attributable to international patent: The income attributable to an international tax patent is tax free for the first three years of the utilization of the patent. The profits will be treated as non-taxed reserve, which will be taxed accordingly upon use.

Fast Track Framework: The Fast Track Framework provides accelerated licensing and permitting, special spatial provisions, special tax regulations and 10-year long EU residence permits. These benefits are available for companies who undertake strategic investment projects (including high tech and innovation projects).

Greece offers a host of other incentives aimed at encouraging the growth of R&D-intensive businesses including innovation grants and a series of researcher employment incentives (payroll subsidies); as well as a patent box.

Eligible industries and qualifying costs

Super deductions: Eligibility for the super deduction is broad and not limited to particular industries. Qualified activities for the super-deduction include scientific research and technology-oriented research and development.

Eligible expenses include the following:

- IP related costs (patent filling, etc.);
- Engineering and industrial design costs leading up to the production of non-commercial prototypes;
- Test and trial costs, production line configuration costs, costs of demonstration projects and new product market research costs.

Contract research is allowed by General Secretariat of Research and Technology (GSRT) approved organizations, such as public institutes, labs and research organizations.

At the end of each fiscal year, the taxpayer submits a report on the R&D expenses incurred to the GSRT. The GSRT issues a certificate on the approved R&D expenses. If the certificate is not issued within six months of submission, then all submitted R&D expenses are considered approved.

Fast Track: While the eligibility requirements for the Fast Track Framework are generally broad, the scale of eligible projects must be significant (e.g., CAPEX in excess of EUR 100M or 150 new permanent employment positions).

Grants and other incentives: Eligibility for government grant and tax development incentives under the state funding program generally follow the general block exemption rules from EU (current regulation 651/2014). Eligible costs for development incentives usually include purchases/leases of new assets and, under specific circumstances, may also include payroll and other operational expenses.

IP and jurisdictional restrictions

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

There is no specific law providing that qualified research must be performed in Greece; however, the need to carry on research outside of Greece needs to be disclosed to GSRT and could influence whether the GSRT issues a certificate approving R&D expenses.

Other concerns

Due to recent changes in the EU legislation (new regional state aid map for Greece effective from July 2014 and new general block exemption regulations effective from June 2014) which govern most of the incentives, the eligibility criteria for state incentives are currently under review.

A presidential decree was expected in 2015 revising the definition of qualifying research expenses to align with the OECD Frascati Manual, i.e., Greek law currently offers a broader definition of qualified expenses. The current political situation in Greece has put most of the incentives legislation on hold.

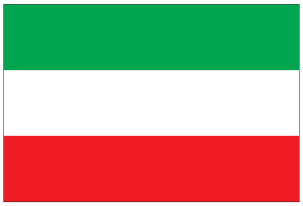
Contact:
Stylianos Sbyrakis
Deloitte Greece
ssbyrakis@deloitte.gr
+30 210 678 1100

Greece (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, patent box and special benefits for strategic investment projects	1. 130% super deduction 2. Patent box 3. Grants and special benefits for strategic investment projects	At the end of each fiscal year, the taxpayer submits a report on the R&D expenses incurred to the General Secretariat of Research and Technology (GSRT). The GSRT issues a certificate on the approved R&D expenses. If the certificate is not issued within 6 months of submission, then all submitted R&D expenses are considered approved.	Tax benefits are not refundable

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
While there are no specific jurisdictional restrictions, the need to carry on research outside of Greece must be disclosed to General Secretariat of Research and Technology (GSRT) and could influence whether the GSRT issues a certificate approving R&D expenses.	No	No restrictions	No restrictions

Hungary



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

Background

The corporate tax rate is 10% for taxable income up to HUF 500M, and 19% on income exceeding that limit.

Nature of incentives

Super deduction: A 200% super deduction is granted for qualifying expenditure if the related R&D activities are carried out within the scope of the taxpayer's own business activities (i.e., 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) or with respect to 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 at the taxpayer's election.

A tax exemption, effective 1 January 2012, is available for capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP provided that:

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

However, capital losses incurred on the sale of qualifying IP may not be deducted for corporate income tax purposes. The patent box 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.

Corporations employing researchers with academic degrees or titles are relieved from paying social tax (27% on gross wages) and the training fund contribution (1.5% on gross wages) up to a monthly gross income wage amount of HUF 500K.

R&D-related expenses may be deducted from the corporate income tax base by any associated entity of the taxpayer.

A taxpayer can take the deduction if the associated entity provides 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.

Rules for the utilization of the tax incentive have changed slightly (e.g., in terms of the aid intensity by region). R&D-related tax incentives can be applied to reduce up to 80% of the tax liabilities with respect to investment projects relating to basic research, applied research and experimental development if certain other conditions are fulfilled.

Eligible industries and qualifying costs

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

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

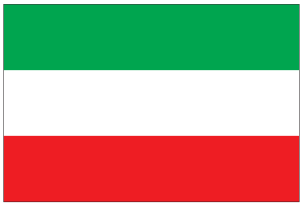
IP and jurisdictional restrictions

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

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

Contact:
Csaba Markus
Deloitte Hungary
csmarkus@deloittece.com
+36 1 428 6793

Hungary (cont.)



Other concerns

R&D benefits can be claimed retroactively, provided the statute of limitations has not expired. As from 1 February 2012, an R&D qualification procedure applies to claim research tax benefits and/or R&D cash grants. Under this procedure, the Hungarian Intellectual Property Office (HIPO) determines if the claim should be granted, and this determination is binding on the tax authorities for future projects. A non-binding "expert opinion" of HIPO may also be available with retroactive effect for past projects. Despite its non-binding nature, a positive expert opinion from HIPO may strengthen the R&D nature of past projects in the case of tax audits. HIPO published detailed guidelines in 2012 that set out the principles for classifying activities for R&D purposes.

Hungary (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, patent box, tax exemptions, and rate reductions.	1. 200% corporate income tax base super deduction. 2. A patent box exempts from income tax 50% of the gross amount of the royalty received (up to 50% of the profit before tax) for IP owned by the taxpayer. A tax exemption is also available for capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP. 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 HUF 500K for certain corporations.	No	No

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No

India

India offers a 200% R&D super deduction, but it is generally limited to taxpayers in the business of bio-technology or manufacturing/producing certain products.

Contact:
Sujit Parakh
Deloitte India
sujitparakh@deloitte.com
+91 12 4679 2210

Background

The corporate tax rate is 30% (plus the applicable surcharge and education cess).

Nature of incentives

As of 1 April 2014, the incentives for conducting R&D include the following:

- A 200% super deduction for in-house R&D expenditure, including capital expenditure (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) to qualify for the super deduction. Currently the benefit is available until 31 March 2017.
- A super deduction of 125% to 200% is permitted for specified payments made to prescribed entities carrying out research and development in India.
- A 100% deduction is available for R&D expenses (other than land) that do not otherwise qualify for the above super deductions.

A deduction also is available for R&D employee salaries and materials used within the three years immediately preceding the year the business commenced.

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

A number of requirements must be met for expenditure incurred on in-house R&D to qualify for the 200% super deduction, including the following:

- The R&D unit must be located in a separate earmarked area.
- The R&D unit must have its own personnel.
- The qualifying R&D expenses may not be deducted under any other provision of the tax code.
- The facility may not be used exclusively for market research, sales promotion, quality control, testing, commercial production, style changes, routine data collection or similar activities.
- The company must maintain a separate account for each approved facility, which must be audited annually; a copy thereof must be submitted to the Secretary of the DSIR by 31 October submitted annually.
- Assets acquired with respect to development of scientific R&D facilities may not be disposed of without the approval of the Secretary of the DSIR.

Eligible industries and qualifying costs

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

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

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

IP and jurisdictional restrictions

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

Other concerns

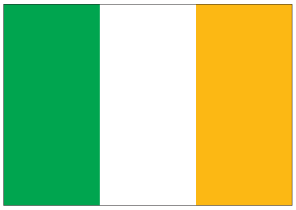
If the taxpayer is in a loss situation, unused benefits may be carried forward for the following eight years, but may not be carried back.

India (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions	1. 200% super deduction for in-house R&D expenditure. 2. 125%-200% super deduction for payment to research institutions. 3. Deduction of R&D employee salary and materials consumed within three years immediately before the commencement of the business.	No, but there is an annual filing requirement for audit reports of the operations in R&D facilities.	If the taxpayer is in a loss situation, unused benefits may be carried forward for eight years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	No	The 200% super deduction is limited to taxpayers in the business of biotechnology or manufacturing and producing products (other than products on the negative list).

Ireland



In 2015, Ireland's incremental research tax credit converted to a volume-based credit.

Contact:
Declan Butler
Deloitte Ireland
debutler@deloitte.ie
+353 1 417 2822

Background

The general corporate tax rate is 12.5%. All credits are computed on a group basis.

Nature of incentives

Deduction: R&D expenses are deductible in the year incurred.

Incremental credit (for tax periods starting before 1 January 2015): A 25% incremental credit is available for all expenditure exceeding the "base amount." The base amount equals the total qualified expenditure incurred during 2003. For tax periods starting after 1 January 2014, the base amount is not applied in determining the research credit for the first EUR 300K of qualifying R&D expenditure. If the company did not exist in 2003 or it did not incur qualified expenditure in the first 12-month accounting period ending after 1 January 2003, the base amount is zero and the credit is available for all expenditure. From 1 January 2015, the base amount is eliminated and the scheme is a volume-based scheme.

Volume-based credit (for periods starting on or after 1 January 2015): A 25% volume-based credit is applied to all qualifying research expenses.

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

Surrendering of credits: Credits received for accounting periods starting after 1 January 2012 may be surrendered to key R&D employees to use against their personal income tax liability. A number of restrictions apply, including that the individual cannot be a director (or be connected to 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: R&D grants are available.

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 (the refund is paid in installments over a three-year period).

Credit refunds are limited to the greater of the total corporation tax paid by the company for the 10 years before the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the qualifying expenditure was incurred. The refund limits were increased for accounting periods starting after 22 June 2011 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. Four categories of activity generally qualify for the credit:

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

Qualifying expenditure includes royalties, expenses deductible for trading purposes (wages and supplies), plant and machinery entitled to capital allowances, revenue and capital expenditure on scientific research, and buildings subject to capital allowances. A fee paid to a contractor to perform research on the taxpayer's behalf is a qualified research expenditure if the contractor is not related to the taxpayer. For periods starting on or after 1 January 2014, fees paid to third-party contractors are limited to the greater of EUR 100K or 15% of the total qualified research expenditures. Where the R&D activities are contracted to a university or research institution, the limit is 5% of the total qualified research expenditures. 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.

Ireland (cont.)

IP and jurisdictional restrictions

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

A stamp duty exemption is available for certain IP.

Other concerns

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

Ireland (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits and grants, employee tax benefits	1. A 25% volume-based credit is available from 1 January 2015. This volume-based credit replaced the 25% incremental credit (with qualified research spending in 2003 as the base amount). 2. 25% credit for expenditure incurred for constructing or refurbishing facilities used in the conduct of qualified R&D activities. 3. R&D grants are also offered. 4. Credits can be used to offset against R&D employees personal income tax liabilities.	No	Unused credits may be carried back one accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over three years), subject to certain caps.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
R&D activities must occur within Ireland or the EU/ EEA. The credit is denied when the activities take place in an EEA country that permits a corresponding tax deduction for such expenditure.	Refunds are limited to the greater of the total tax paid by the company for the ten years before the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the expenditure were incurred.	No	No

Israel

In Israel, 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.

Background

Israel's corporate tax rate is 25%. The Office of the Chief Scientist (OCS) of the Ministry of Industry Trade and Labor implements the government's policy encouraging and supporting industrial R&D. It is responsible for promoting industrial R&D that is likely to lead to new export products. Incentives may be available if an applicant is approved by the OCS and meets the following requirements: has proven technological skills, intends to implement the project in Israel (unless exempted by the research committee of the OCS), and meets 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, are eligible for a lower tax rate of 7% in 2013 and 9% for years 2014 and thereafter. Companies that are not located in Priority Area A are eligible for a lower tax rate of 12.5% in 2013, and 16% as from 2014.

If the company pays dividends during a tax year in which the full exemption is available, the dividends are taxed at 20% 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 a rate of 20% of the total investment.

Strategic program: The program is intended for large multinational companies whose annual gross receipts exceed ILS 20B, whose preferred income exceeds ILS 1.5B, who invest a minimum of ILS 100M in R&D projects, and who hire at least 250 new employees.

Fulfilling the above requirements will allow the companies to benefit from a reduced tax rate of 5% in Priority Area A and 8% in areas that are not Priority Area A.

Angel's law: Angel's law is a tax benefit granted to individuals investing in qualified Israeli R&D companies, allowing them to be able to deduct their investment from any other income source. The amount of the deduction is capped at ILS 5M per target company.

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 and hardware development
- Energy and utilities

Qualifying expenditure generally includes in-house labor costs, capital investments, supplies, overhead, and contract costs.

The OSC'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.

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

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

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

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

Contact:
Nadav Gil
Deloitte Israel
ngil@deloitte.co.il
+972 3 608 5378

Israel (cont.)

Technological incubators 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 ILS 210K for each project. Israeli companies can apply for grants in the European Commissions' Seventh Framework Programme (FP7), which is the main instrument for funding R&D 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.

Binational funds and bilateral 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 expenditure.

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

Other concerns

R&D expenses generally are deducted in the year incurred, but some expenses are deducted in installments over three years.

Israel (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax rate reductions and grants	1. Tax rate reductions though the Alternative Tax Program and Strategic Program. 2. Several grant programs are available.	Yes	N/A

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	N/A	No, but could be a factor in evaluating grant applications.	While there are no industry eligibility requirements the Israeli government appears to favor applications submitted by companies in the following industries: pharmaceuticals, software and hardware development, energy and utilities.

Italy

The Italian R&D tax incentives were significantly enhanced in 2015.

Background

The Italian budget law 2015, introduced broad and deep changes to the tax laws that impact R&D tax incentives from 1 January 2015. Italy's corporate tax rate (IRES) is 27.5% and the regional tax on productive activities (IRAP) standard rate is 3.9% (rate depends upon the region and the industry).

Nature of incentives

Incremental R&D tax credit: A new incremental R&D tax credit scheme is available for FYs 2015 through 2019 equal to either 25% or 50% (depending on the nature of the expenses incurred) of the annual R&D incremental expenditure exceeding the average R&D expenditure incurred during FYs 2012, 2013 and 2014. Qualifying R&D expenditure for these purposes includes: (i) costs for highly qualified personnel; (ii) depreciation of laboratory equipment; (iii) costs for R&D activities outsourced to universities and research centers or to other companies; and (iv) costs incurred for technical expertise related to industrial or biotech IP. The benefit is increased from 25% to 50% in connection with expenditure incurred under (i) and (iii).

All persons carrying on an entrepreneurial activity are eligible to claim in each FY up to EUR 5M tax credit; provided an annual minimum investment equal to EUR 30K.

Companies not subject to legal auditing must obtain a report by a registered auditor. The audit costs are eligible costs in the calculation of the tax credit (with a cap of EUR 5K).

The R&D tax credit is a cash grant equivalent since it can be used to offset IRES, IRAP, VAT and withholding tax liabilities without any limitation.

35% tax credit for hiring researchers: A 35% tax credit is available for amounts paid to qualified researchers hired in FY 2013 and 2014. Eligible employees are those with a university degree or a Ph.D. (researchers without a Ph.D. are eligible, but must be employed only in R&D activities). The company must employ researchers: (i) for at least three years if the company is a large company; or (ii) two years if the company is a SME. The credit is subject to a cap of EUR 200K per company annually. There are filing requirements that must be met to claim the tax credit, which can be used to offset IRES, IRAP, VAT and withholding tax liabilities. The deadline to claim the tax credit is 31 December 2015, for researchers hired during FY 2013, and 31 December 2016, for researchers hired during FY 2014.

Patent box: This tax incentive aims to encourage R&D and innovation by providing an incentive for retaining high-value jobs associated with the development, manufacture and exploitation of patents in Italy. All persons carrying on an entrepreneurial activity in Italy, including permanent establishments (PEs) of foreign entities, will be granted a 50% tax exemption that will be phased-in over a three-year period: (i) a 30% exemption for FY2015, (ii) a 40% exemption for FY2016, and (iii) a 50% exemption for FY2017. The patent box will apply to the IRES and IRAP tax base. The patent box applies to income earned from the direct and/or indirect exploitation of IP, patents, trademarks, including commercial IP, industrial designs and models, procedures, formulas and information concerning industrial, business or scientific know-how that will be legally registered and protected, as well as capital gains derived from the intangibles (under certain conditions). The income exemption is intended to comply with the principles set forth in Action 5 of the OECD's base erosion and profit shifting (BEPS) draft on IP regimes, in which the OECD advocates a "modified nexus approach." This means that the exemption is limited to income attributable to R&D activities undertaken in Italy by an eligible person in order to develop income-producing intangibles (even if contracted to research entities or to other companies). The incentive is available, starting from FY2015, at the taxpayer's option and is binding for five years. In the case of "direct" exploitation, a tax ruling (advanced pricing agreement or "APA") must be submitted to the tax authorities.

Grants are also available from the New Fund for Sustainable Growth. This Fund was established by the Italian Ministry of Economic Development to promote industrial innovation. This Fund can be applied to the implementation of R&D projects within the technological areas defined by the EU program "Horizon 2020." Projects can be carried on by companies of any size either on their own or by joining with other research organizations. The available budget is EUR 400M, and the incentive is offered both in the form of subsidized loans and non-repayable grants.

Contact:
Ranieri Villa
Deloitte Italy
ravilla@sts.deloitte.it
+39 01 0531 7831

Italy (cont.)

Tax relief for investments in "R&D intensive start-up companies" (IST) and research-intensive SMEs: ISTs are companies whose main goals include developing and producing innovative and technologically advanced products or services. Research-intensive SMEs are similar and generally are small or mid-size companies with a research-intensive operation. To obtain "IST" or the "R&D-intensive" SME status, a company must meet several requirements concerning the amount of R&D expenditure incurred, the number of highly qualified employees employed and the company's interest in the IP such as a license, patent, or registered software.

For FYs 2014 through 2016, corporations investing in an IST may be entitled to an immediate deduction equal to 20% of the invested amount (the maximum eligible investment is equal to EUR 1.8M per year). Individuals investing in an IST are eligible for a 19% tax credit for 2014, 2015 and 2016 (up to an annual maximum investments of EUR 500K per year). The total amount of combined investments received by an IST from external investors (whether they be corporations or individuals) for each fiscal period may not exceed EUR 2.5M. Such investments are eligible for tax deduction only when made in the form of a cash contribution. Moreover, most of the incentives granted to ISTs have been extended to the "R&D-intensive SME". To qualify as an "R&D-intensive SME", the annual employee turnover is limited to EUR 50M, while the employee turnover limit for an IST is EUR 5M.

Wages of employees involved in R&D activities are fully deductible for IRAP purposes.

Legislation has been introduced to encourage EU citizens who went abroad to engage in a trade or profession or to obtain a decree to relocate to Italy. This incentive, applicable until 31 December 2017, reduces the tax base up to 10%–20% (if certain conditions are fulfilled) for eligible EU citizens who relocate to Italy.

A wide range of regional cash grants is 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 and applied R&D activities. Eligible expenses include:

- The labor costs of employees performing R&D activities (only highly-qualified employees are eligible for the R&D tax credit purposes);
- The depreciation expenses and leasing costs for machinery and instruments used in qualified research are also eligible expenses (if the per unit cost is at least EUR 2K);
- Fees paid for performing research on the taxpayer's behalf by universities, research institutions and other companies;
- The cost of purchased technical knowledge and patents.

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

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP.

There are some limited situations in which research can be performed outside the country.

Other concerns

The Ministry of Economic Development and the Italian Revenue Agency are responsible for reviewing a company's claim for the tax credit. As noted above, reported tax benefits must be supported by documentation that has been reviewed and certified by corporate auditors, an independent auditor, or an audit firm. Moreover, this certification must be attached to the annual financial statement. Tax audits evaluate the certified documentation to confirm that reported tax benefits are adequately substantiated.

To deduct wages of employees involved in R&D activities for IRAP purposes, the Italian tax authorities requires an audit report to certify the expenses.

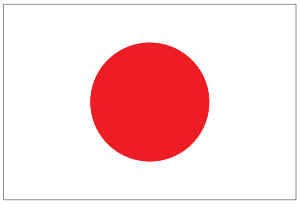
The application for the 35% tax credit for hiring researchers is electronically filed and processed in chronological order. The application for a tax credit for hiring researchers during FY 2013 can be filed on or after 12 January 2015. The application for a hiring credit for FY 2014 can be filed on or after 11 January 2016.

Italy (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits, patent box, investment incentives, and grants	1. A new incremental R&D tax credit scheme is available for FYs 2015 through 2019 equal to either 25% or 50% (depending on the nature of the expenses incurred) of the annual R&D incremental expenditure exceeding the average R&D expenditure incurred during FYs 2012, 2013 and 2014. 2. A 35% tax credit is available for amounts paid to qualified researchers hired in FY 2013 and 2014. 3. Salaries of employee-related involved in research activities are deductible for IRAP. 4. 25% credit for digital economy. 5. 20% of the amount invested by corporations in "R&D Intensive Start-up companies" (IST) qualifies for an immediate deduction. Individuals investing in an IST are eligible for a 19% tax credit for 2014, 2015 and 2016. 6. A patent box is available for 2015 providing a 50% tax exemption that will be phased-in over a 3-year period: (i) 30% exemption for FY2015, (ii) 40% exemption for FY2016, and (iii) 50% for FY2017. The patent box applies to income and capital gains (under certain conditions) earned from the direct and/or indirect exploitation of intellectual properties that are legally registered and protected. 7. Regional cash grants.	Taxpayers must apply for the 35% credit for hiring and retaining researchers.	No

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	35% tax credit for hiring researchers is subject to a cap of EUR 200K per company annually. There are several limitations on the tax benefits for individuals and corporations investing in ISTs. Also, ISTs are limited in the amount of investment by corporations and individuals.	No	No

Japan



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

Contact:
Mark Brandon
Deloitte Japan
mark.brandon@tohmatsu.co.jp
+81 80 3410 4584

Background

The general national corporate tax rate is 23.9% for fiscal periods beginning on or after 1 April 2015 (the rate was 25.5% for fiscal periods commencing between 1 April 2014 and 31 March 2015). However, other local corporate tax rates (inhabitants tax rate and local enterprise tax rate) apply when calculating the total corporate tax liability of a company, which is approximately 33% for periods beginning on or after 1 April 2015 (about 26% for periods commencing between 1 April 2014 and 31 March 2015).

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

Nature of incentives

Volume-based tax credit: The tax credit for general R&D costs is a volume-based credit, and varies depending on whether the company claiming the credit is a small and medium-sized company (SME) or a large company.

Small and medium-sized enterprise (SME): A SME is defined as a company with stated capital of JPY 100M or less. SMEs owned by a large company/companies whose capital exceeds JPY 100M do not qualify as SMEs for these purposes.

SMEs may claim a tax credit equal to 12% of total R&D expenditure.

For fiscal periods beginning on or after 1 April 2015, the credit is limited to 25% of the company's national corporation tax liability before the credit is applied (previously 30%).

Large companies: The tax credit for large companies is 8% to 10% of total R&D expenditure, with the same limit as for SMEs.

Tax credit for special R&D costs: For fiscal years beginning on or after 1 April 2015, a 30% credit (previously 12%) is provided for joint R&D with a university or pubic research institution: or where the R&D is contracted to such entities. Royalty payments made to SMEs also qualify for this special tax credit. The credit is 20% where the R&D is with other non-public entities. This tax credit is limited to 5% of the company's national corporation tax liability before the credit is applied. This limitation is in addition to the other limitations on research credits.

Incremental tax credits: Additional incremental tax credits (for both SMEs and large companies) also are available. Where the current period R&D expenditure exceeds: (i) the annual average of the R&D expenditure for the three preceding fiscal years; and (ii) the highest annual R&D expenditure for the previous two fiscal years, the company may claim the percentage of R&D expenses allowable as a credit from 5% up to 30%, depending on the amount of increase in the R&D expenses.

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

The tax credit is limited to 10% of the company's national corporation tax liability before the credit is applied. The additional tax credit is available for fiscal years commencing on or after 1 April 2014 through 31 March 2017.

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

For fiscal years beginning on or after 1 April 2015, unused tax credits no longer may be carried forward (previously, a one-year carryforward was available).

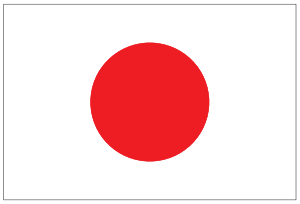
Eligible industries and qualifying costs

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

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

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

Japan (cont.)



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

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

IP and jurisdictional restrictions

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

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

Other concerns

No prior approvals from government/regulatory agencies is required.

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

Japan (cont.)

<table>
<tr><th>Nature of benefit available</th><th>Income tax benefit generally available</th><th>Specific pre-approval required from government</th><th>Refundable/ Carryforward</th></tr>
<tr><td>Volume-based and incremental research credits</td><td>1. Volume-based credits:
• The tax credit for SMEs is 12% of total R&D expenditure.
• The tax credit for all other companies is 8% to 10% of total R&D expenditure.
2. Costs incurred for collaborative research with R&D institutions qualify for credits ranging from 12%-30%.
3. Incremental credits ranging from 5% to 30% are available depending on the increase in qualified research spending over prior years.</td><td>No</td><td>For fiscal years beginning on or after 1 April 2015, unutilized research credits can no longer be carried forward (the prior rule allowed a one year carry forward)</td></tr>
</table>

<table>
<tr><th>R&D activities must occur in country</th><th>Cap/Limitations on benefits</th><th>IP must be retained in country</th><th>Industry eligibility restriction</th></tr>
<tr><td>No</td><td>The limitations on the amounts of research tax credits are as follows:
• The volume-based tax credits are limited to 25% of the tax liability before the credit is applied (this limitation is effective for FYs beginning after 1 April 2015).
• Collaborative research credits and other special credits are limited to 5% of the company’s national corporation tax liability before the credit is applied.
• Incremental research credits are limited to 5% of the company’s national corporation tax liability before the credit is applied.</td><td>No</td><td>No</td></tr>
</table>

Latvia

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

Background

The corporate income tax rate is 15%. Latvia increased the rate of the super deduction for eligible qualifying expenditure from 150% to 300% (effective 1 July 2014).

Nature of incentives

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

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

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

Eligible industries and qualifying costs

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

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

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

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

Qualifying research activities include industrial or experimental production in both the manufacturing and service industries. The anticipated result of the R&D activities must be innovation or providing new insight into scientific or technology problems.

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

The innovation or scientific/technology problem that is addressed must be related to the current business operations of the taxpayer or business operations the taxpayer is about to undertake.

While qualified research projects generally produce a new product or technology that neither the company nor anyone else has ever made, projects involving the development of non-innovative products can qualify if the taxpayer proves that the company was not aware of such a product or research or it was not available at the time.

Qualifying labor includes costs for the following types of employees:

- Scientists and professionals holding academic degrees who carry out R&D activities to acquire new knowledge, products, processes, methods and systems; and
- Persons with technical knowledge and expertise participating in R&D activities (engineers, technicians, operators etc.).

IP and jurisdictional restrictions

The tax incentive can be applied for by companies incorporated in Latvia and by registered branches of foreign companies. If a company aims to outsource R&D, Latvian or EU/EAA SIs/test laboratories can be contracted. However, those institutions must be publicly recognized or must meet specific criteria set out in Latvian law.

Contact:
Ivo Rubins
Deloitte Latvia
irubins@deloittece.com
+371 6707 4179

Latvia (cont.)

In the event that the company applying for R&D tax incentives creates IP, it must retain ownership of the IP for at least 3 years. Licensing of the IP is permitted. There is, however, no requirement that the research result in IP, i.e., unsuccessful or abandoned research projects can qualify for research tax incentives.

Other concerns

A taxpayer must have appropriate documentation to support eligible expenses. These documents include project descriptions prior to execution of the project and annual reports.

A taxpayer may seek approval from a commission under the Ministry of Economics that particular projects meet eligibility requirements, but pre-approval is not required. The R&D tax benefits are claimed on the taxpayer's annual corporate income tax return. Unutilized super deductions can be carried forward for an unlimited period; however, super deductions cannot be carried back. Corporate income tax returns can be amended three years after submission.

Latvia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward
Super deduction	300% super deduction for qualified expenses.	No	Carryforwards are allowed for an unlimited period.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	There is no obligation to create an IP as a result of the R&D projects and unsuccessful R&D is still eligible. However, if company applying for R&D tax relief creates IP, it must retain IP ownership for at least three years. Licensing of such IP is allowed.	No

Lithuania

Lithuania offers a 300% super deduction for qualified research expenses.

Background

The corporate income tax rate is 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 years beginning on or after 1 January 2008. The following two tax incentives are available to companies performing qualified research:

300% super deduction: The deduction is available for:

- Expenses incurred by companies conducting research activities; and
- Expenses incurred to acquire research technologies conducted within EEA countries or countries that have concluded a tax treaty with Lithuania.

Accelerated depreciation: Certain capital assets used in the R&D activities (e.g., plant, equipment, computers, communications equipment, and software) may benefit from accelerated depreciation. Depending on the type of capital asset, the depreciation period may be shortened from eight, five, four or three years to two years.

A company that incurs losses attributable to R&D super deductions can carry the losses forward indefinitely.

Eligible industries and qualifying costs

Eligibility for research incentives is not limited to particular industries or types of entity. To claim the benefit, the taxpayer must prove that the activities performed are R&D activities. The 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 must be scientific or technological progress and the results must be significant for entities that initiated and executed the project.

Qualifying expenditure includes gross wages, social security and health insurance contributions, business trip expenses, expenses for purchased services (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 value added tax (VAT) is nondeductible.

IP and jurisdictional restrictions

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

The super deduction also applies to a Lithuanian entity that acquires research technology if the acquired technology has been conducted within the EEA or a country that has concluded a tax treaty with Lithuania. If technology acquired from another entity or individual results in IP, the rights or any part of the rights also must pass to the acquiring entity.

Other concerns

The taxpayer must have documentation to substantiate eligible expenses, although the documentation need not be submitted until requested by the tax authorities. A taxpayer may seek approval from the Lithuanian Agency for Science, Innovation and Technology that particular projects meet eligibility requirements, but pre-approval is not required. The R&D tax benefits are claimed on the taxpayer's annual corporate income tax return, which can be amended for the preceding five tax periods.

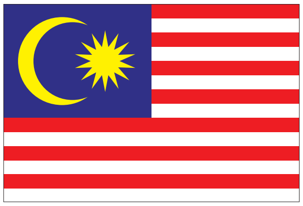
Contact:
Kristine Jarve
Deloitte Lithuania
kjarve@deloittece.com
+371 67 074 112

Lithuania (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/Carryforward
Super deduction and accelerated depreciation	1. 300% super deduction for qualifying expenses. 2. Accelerated depreciation on capital assets used for R&D activities.	No	Companies incurring losses can carry forward eligible expenses indefinitely.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Acquired technologies must be developed within the EEA or a treaty country.	No	IP must be retained by Lithuanian company.	No

Malaysia



In Malaysia, companies qualifying for "Pioneer Status" are entitled to potentially significant tax benefits.

Contact:
Daniel Lim
Deloitte Malaysia
daniellim@deloitte.com
+60 3 7610 8845

Background

The 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): An R&D service provider may qualify for a 100% ITA on qualifying capital expenditure incurred within 10 years. R&D service providers generally must have at least 70% of their income derived from R&D activities to qualify for the ITA. R&D service providers must be certified by the Malaysian Investment Development Authority (MIDA).

The ITA rate is lowered to 50% for a company performing in-house R&D to further its business. The allowance can be offset against 70% of the company's statutory income for each year of assessment. Any unutilized allowances can be carried forward to subsequent years until fully utilized.

200% super deductions: A company performing in-house R&D to further its business is allowed to claim a 200% super deduction for noncapital expenditure incurred in qualifying R&D, if approved by the Minister of Finance.

The 200% super deduction also can be claimed for cash contributions or donations to approved research institutions, and payments for the use of the services of approved research institutions, approved research companies, R&D companies or contract R&D companies.

If an R&D service provider performs qualifying services for a related company, it can elect to forgo the super deduction thereby allowing the related company to claim the super deduction for the amounts paid to the related R&D service provider.

Current in-house research projects must be pre-approved by the Inland Revenue Board (IRB) before the 200% super deduction is granted.

Enhanced benefits for PS: The Minister of Finance can grant PS to companies that derive income from certain activities and products that benefit the Malaysian economy. Promoted "activities" and "products" are determined by the Minister and are published in the government gazette. R&D companies, high tech companies, software development companies and manufacturing companies capable of producing world-class products typically are granted PS. Statutory income earned by an R&D company that has PS is exempt from tax for five years, which may be extended for an additional five years if government approval is obtained.

A subsidiary company that undertakes the commercialization of resource-based R&D findings is exempt from corporate income tax for 10 years, if certain conditions are satisfied.

Approved R&D expenditure incurred during the tax relief period for companies granted PS can be accumulated and deducted after the tax relief period ends.

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 expenditure for the in-house research incentive includes wages, supplies, technical services, technical costs, transportation costs, maintenance costs, rents, and other expenditure incurred directly for the conduct of qualified research.

IP and jurisdictional restrictions

Expenditure incurred on R&D activities undertaken outside of Malaysia, including the training of Malaysian staff, will be considered for the 200% super deductions on a case-by-case basis. Moreover, payments for technical services performed outside of Malaysia may qualify for the super deduction if 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 granted.

Malaysia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, tax exemptions and investment tax allowances	1. Investment Tax Allowance (ITA) of 50% on qualified capital expenses incurred within 10 years for company conducting R&D. 2. ITA of 100% on qualified capital expenses for R&D service providers incurred within 10 years. 3. 200% super deduction. 4. Tax exemptions (5 – 10 years) for "pioneer status" companies.	In-house projects must be pre-approved by the IRB before the 200% super deduction is permitted. The Minister of Finance can grant Pioneer Status to companies that derive income from certain activities and products that benefit the Malaysian economy.	Any unutilized allowances can be carried forward to subsequent years until fully utilized.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Activities qualifying for the super deduction can occur outside the country if approved by the government.	The cost incurred for qualified technical services performed outside the country will be considered for the super deduction as long as the amount does not exceed 70% of the total qualifying costs incurred for the tax period.	There is no specific requirement that IP be retained in the country.	No

Mexico

Mexico has extended certain grant programs to fund R&D projects undertaken in 2015.

Background

The general corporate income tax rate is 30%.

Although R&D incentives were eliminated as part of Mexico's 2010 tax reform, the legislature has allocated funds to extend R&D grant programs to provide direct cash subsidies for qualified R&D projects undertaken in 2014 and 2015.

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

Nature of incentives

The R&D incentives are provided in the form of 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 must 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): This program grants economic support to large companies that meet the eligibility requirements. Priority is given to collaborative proposals involving research centers or higher education institutions.

Applications for the cash grants may be submitted from September to November.

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 generally are awarded for collaborative research conducted with a research center or higher education institution.

There also are federal incentives offered under the Program for the Development of the Software Industry (PROSOFT) which is aimed at developing a strong, competitive and global IT sector in Mexico, that can increase the productivity and innovation capacity of Mexican companies. The program is managed by the Ministry of Economy.

Potential beneficiaries of PROSOFT are individuals with entrepreneurial activities and entities incorporated under Mexican law whose main activities relate to software development, IT services, outsourcing of business processes and digital creative media. The incentive takes the form of a cash grant on eligible expenses, based on specific caps per expense category. Eligible expenses include training and certification costs, set up costs and investment in technological equipment, quality assurance costs, innovation costs (e.g., technology licenses, scientific research, transfer of technology, patent registry, trademarks and copyrights), merchandising services for IT products, benchmarking and market strategy studies, specialized consulting services and costs for participating in or hosting IT events.

To qualify for a PROSOFT grant, the beneficiary must cover at least 50% of the project's total investment, must be current on its tax obligations and must not be receiving duplicate benefits derived from other federal programs that provide funding or other incentives.

Rules for 2016 have not yet been published, but applications for 2015 had to be submitted between 30 January and 24 August 2015.

Although PROSOFT is a federal incentive, the Mexican states can adopt the program and provide similar cash grants, i.e., act as "promoting organisms".

The Ministry of Economy can conduct audits to ensure that the granted federal resources are being used for the authorized purposes.

Buildings and capital equipment used in research generally must be depreciated, but some expenses can be deducted if certain requirements are met.

Contact:
Fernando Silis
Deloitte Mexico
fesilis@deloittemx.com
+52 55 5080 6970

Mexico (cont.)

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 typically will cover the related operating expenses for research centers or higher education institutions, project salaries, personnel travel expenses, expenses incurred to register IP 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 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.

Other concerns

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

Mexico (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Grants	There are no tax benefits available, only R&D grants.	Grant application process.	N/A

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	N/A	No, but it is a factor considered in the grant issuance decision-making process.	No

Netherlands

Netherlands offers a variety of R&D incentives, including an innovation box, super deduction, reduced wage tax and social security contributions for employees conducting qualified research.

Background

Netherlands corporate tax rate ranges from 20% to 25%. Three incentives are offered 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): The RDA is a super deduction of 160% of qualifying expenses directly attributable to qualified research activities.
- Innovation box: Qualifying income attributable to innovations is taxed at a 5% rate.

Nature of incentives

Wage tax and social security contributions are reduced for R&D employees if the taxpayer qualifies for WBSO benefits. The reduction is 35% (up to 50% for start-up companies) of the first EUR 250K in R&D wage costs and 14% for the remaining wage costs, with a maximum reduction of EUR 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 made simultaneously with the WBSO request.

The innovation box applies to patented and nonpatented innovations alike, provided the R&D efforts qualify for the WBSO. There is no cap on the amount that can be allocated to the innovation box.

Development costs and losses on the exploitation of IP are deducted from the income allocated to the "innovation box" in determining the income subject to the special 5% tax rate.

As from 1 January 2013, an additional benefit is offered to new patented and nonpatented innovation-related income for R&D activities that are eligible for the WBSO. Under this the benefit, 25% of the annual income from innovation can be taxed at the reduced 5% rate, with a cap of EUR 25K profit annually. This 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 the benefit for one, two or three years for each innovation. However, once the benefit is elected for the year, it covers all innovation-related income for that year. For example, assume a taxpayer has income from innovation in Year 1 of EUR 80K, Year 2 of EUR 0, and Year 3 of EUR 200K. If the taxpayer elects this benefit, 25% of Year 1 income is taxed at 5%, and maximum EUR 25K income from Year 3 is taxed at 5%. In Year 2, the taxpayer is eligible to use the other innovation box benefit.

Eligible industries and qualifying costs

The WBSO, RDA, and innovation box are open to 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.

The RDA super deduction applies to certain operating costs (OPEX) and capital costs (CAPEX).

Qualifying OPEX expenses are "all amounts paid" (other than wages) in R&D projects that would qualify for the WBSO and RDA incentives.

Qualifying CAPEX expenses are "all amounts paid" for the investment in new business assets used in R&D, except investments in land and business assets that qualify for the energy or environmental investment allowance.

Contact:
Helene Geijtenbeek
Deloitte Netherlands
HGeijtenbeek@deloitte.nl
+31 88 288 8962

Netherlands (cont.)

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, a qualifying intangible must be developed at the risk of and for the 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.

Other concerns

It is anticipated that the WBSO and RDA will be amended for 2016. These incentives will be consolidated into a single scheme and will grant only a wage tax reduction; the RDA will be a "below-the-line" incentive.

Netherlands (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, innovation box, wage tax and social security contribution benefits	1. Wage tax and social security contributions for employees conducting qualified research are reduced by 35% (50% for start-up companies) of the first EUR 250K in R&D wage costs and 14% for the remaining wage costs with a maximum reduction of EUR 14M per taxpayer. 2. Innovation box provides a reduced tax rate of 5% on qualifying revenue attributable to patents and innovation. 3. RDA allows 160% super deduction, but wages do not qualify for this benefit.	Yes, taxpayer must receive certification from the government in advance.	No

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Qualified activity must take place within the EU for the super deduction and wage tax benefits.	The wage tax and social security contribution benefits are limited to EUR 14M per taxpayer.	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.	No

Poland

Poland offers funding through research grants, but offers very limited tax incentives.

Background

The corporate tax rate is 19%. Poland provides incentives for R&D investments in new technology, with additional incentives available to entities that have "R&D Center" status. Poland also offers grants from both national and EU funds.

Nature of incentives

Deductions: Development activities are 100% tax deductible.

Tax deduction and exemptions for R&D centers: Entities with R&D center status can establish an innovative fund. Monthly contributions to this fund amounting to 20% of revenue are treated as tax deductible costs.

R&D centers (initial investments): The government grants up to 10% of the purchase price of fixed assets or up to EUR 3.9K per one newly created work place. R&D centers located in special economic zones (SEZ) may qualify for a tax exemption capped at 50% of 2 years of labor costs or eligible capital expenditure. If, for example, the eligible capital expenditure is EUR 1M and the company qualifies for the maximum benefit of 50%, then the company does not pay tax on the first EUR 500K (50% x EUR 1M) of otherwise taxable income. There are, however, certain additional limitations on the utilization of this tax exemption. R&D centers also are eligible for a real estate tax exemption, and rural and forest tax exemptions. Enterprises planning to set up R&D centers or invest in R&D infrastructure also can apply for EU funds in the form of cash grants up to 70% of eligible costs under Operational Programme Smart Growth (OPSG). First calls for proposals open in the fall of 2015.

Technology tax relief: A company can deduct from its tax base up to 50% of expenditure incurred for the acquisition of new technology in the form of intangible assets, such as proprietary rights, licenses, rights under patents or utility models, know-how, that result in the improvement of existing products/services. If losses are incurred, the tax deduction may be used during the subsequent three tax years.

Grants: Poland is currently developing new programs for the support of R&D to be financed from EU funds during the period of 2014–2020. Poland will remain the largest beneficiary of EU funds with about EUR 82.5B funds in total and approximately EUR 10B purely for R&D. First calls for proposals have been announced, but support schemes will be not be fully launched until the end of 2015 (or early 2016). At the same time, R&D support programs financed from national funds are available as the complementary sources.

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

Eligible industries and qualifying costs

The following expenditure may be deducted when creating an R&D centers:

- Purchase and installment of equipment;
- Purchase of buildings and land;
- Construction works; and
- Rental costs; and
- Two-year labor costs (only if the R&D center is located in SEZ).

To acquire R&D Center status (which is granted by the Minister of Economy), a company must submit a formal application and meet the following requirements:

- Have at least EUR 1.2M in net sales revenue for the previous financial year;
- Have revenue from internal R&D services or industrial property rights accounting for 20% of net revenue; and
- Not have any outstanding regulatory liabilities.

The technology tax relief is available to all entities operating in Poland and acquiring new technology, except for taxable persons using the flat rate method and enterprises that carry out business activity in SEZs. The list of eligible expenditure includes only costs of acquired technological solutions in the form of intangible assets. Therefore, the costs of internal R&D and costs refunded from other public aid sources, do not qualify for the technology incentive.

To use the technology incentive, a technological solution may not be used worldwide for a period exceeding five years, and this must be substantiated by an opinion issued by an independent research unit. For audit purposes, the company must 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 five years. An enterprise that is the beneficiary of this tax incentive may not grant other entities rights to the new technology before three years have passed from the date the tax incentive was used.

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.

Contact:
Magdalena Burnat-Mikosz
Deloitte Poland
mburnatmikosz@deloittece.com
+48 22 511 00 65

Poland (cont.)

IP and jurisdictional restrictions

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

Other concerns

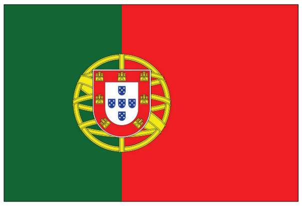
The Polish government has announced that it will introduce a new tax relief benefit for R&D activities. The Ministry of Economy anticipates the introduction of tax relief for entrepreneurs in the form of a super deduction for eligible costs incurred in R&D (not just for purchased R&D results). The new tax relief is expected to be introduced no sooner than 2016.

Poland (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
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 expenditure 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 three tax years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No

Portugal



Portugal offers volume-based and incremental R&D tax credits.

Background

The standard corporate tax rate is 21%, with a reduced rate of 17% applying to the first EUR 15K of taxable profits of SMES (a municipal surcharge and a state surcharge apply in certain cases).

The Portuguese Tax Incentives Scheme for Corporate R&D (SIFIDE II) will be in place through 2020 and provides for the current deduction for R&D costs, as well as the tax incentives described below.

Nature of incentives

The incentive consists of a credit against the corporate tax liability for expenditure incurred on R&D activities (net of any cash grants awarded by the government to the R&D project). The tax credit is both volume-based and incremental:

- Base rate: 32.5% of the R&D expenditure incurred during the tax year. New SMEs may benefit, in certain cases, from a special increase of 15% of the base rate.
- Incremental rate: 50% of qualified spending exceeding the average amount spent in the prior two tax periods.

Eligible industries and qualifying costs

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

Eligible expenditure includes:

- The acquisition cost of new fixed assets connected with R&D activities, except buildings and land.
- The wages of personnel directly involved in R&D activities provided the employee has a secondary level of education plus a traineeship, i.e., the employee must have a minimum rating level of four as defined in the National Qualifications Framework. In addition, 120% of the wages paid to personnel with a qualification level of eight (PhD's) are qualified for the research credits.
- Allocated costs of directors and professionals participating in the management of R&D institutions.
- Costs of contracting R&D activities from public entities and/or from entities recognized as possessing R&D capabilities.
- Certain general operating costs are eligible in an amount of up to 55% of personnel costs directly involved in R&D activities. These costs include:
  - Overhead, such as electricity, gas, water, rent, repairs, maintenance;
  - Contracted R&D services (from entities not officially recognized as possessing R&D capabilities);
  - Wages of personnel involved in R&D activities with a qualification level below four.
- Expenditure incurred to raise capital for institutions that perform R&D and contributions to funds aimed to finance R&D.
- Costs of 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.

Expenses incurred in projects undertaken exclusively for third parties are not eligible for research tax incentives.

IP and jurisdictional restrictions

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

Other concerns

The regime requires the submission of the applications by end of the seventh month after the year-end (usually in July of the following year since most taxpayers use the calendar year). If the tax liability for the year is insufficient to permit full utilization of the credit, any unutilized tax credit may be carried forward up to eight taxable periods.

SIFIDE II requires the certification of applications by the committee for corporate R&D tax incentives. The application requires a description of the technical details of the R&D activities carried out, the corresponding eligible expenditure and related incremental amounts compared with previous accounting periods. An entity may be subject to a technological audit at the end of the project.

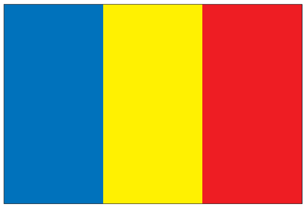
Contact:
Sergio Oliveira
Deloitte Portugal
seoliveira@deloitte.pt
+351 2104 27527

Portugal (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credit	1. Base rate: 32.5% of the R&D expenditure during the tax year. Small and medium-sized enterprises (SMEs) may benefit, under certain circumstances, from a special increase of 15% 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.	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.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No

Romania



Romania currently offers a super deduction of 150% of eligible expenses.

Contact:
Dan Badin
Deloitte Romania
dbadin@deloittece.com
+40 21 2075 392

Background

The general corporate income tax is 16%.

The legislative framework for the R&D tax incentive is in the Fiscal Code. Specific Norms providing guidance in the application of the law relating to research tax incentives have been jointly issued by the Ministry of Public Finance and the Ministry of Education Research and Innovation. A new order was issued in March 2015 modifying the specific Norms applicable to the incentive. The following description of the research tax incentives reflects the specific Norms that have been adopted.

Nature of incentives

Romania offers a 150% super deduction for eligible R&D expenditure. In light of the corporate income tax rate of 16%, the R&D tax incentive provides tax savings of 8% of the qualifying costs.

Additionally, accelerated depreciation for equipment and devices used in R&D activity of up to 50% of the fiscal value of the asset may be deducted during the first year of use. The remaining fiscal value of the asset is depreciated over the remaining useful life.

Eligible industries and qualifying costs

The super deduction is provided to Romanian taxpayers (e.g., legal entities tax resident in Romania or PEs of foreign entities) who conduct in-house R&D activities or participate in collaborative R&D through partnerships or associations as long as they have the right to use the research results in their business, e.g., selling products developed through R&D, selling the results of the R&D or exploiting the resulting IP in some other way.

Where part of the R&D activities are performed by a third party, the party paying for the research can treat the amount paid as a qualified research expense.

The R&D activities must be creative activities that bring a significant element of novelty in resolving scientific or technological uncertainty, i.e., the solution should not be obvious for a competent professional in the field.

Eligible types of R&D activities are:

- Applied research undertaken to acquire new knowledge for the development of new products, processes or services or for the significant improvement of existing products, processes or services. This includes the creation of components for existing complex systems and may include the construction of prototypes or pilot-lines when this is necessary for the industrial research and, especially for the validation of new processes, products and services.
- Technological development work, drawing on existing knowledge gained from research and/or practical experience, which is directed to obtaining new materials, products, processes, systems and services, or to improving substantially those already in existence. The definition includes the development of the experimental model/prototype that cannot be used for commercial purposes, as well as system engineering activities, engineering and technological designs.

Expenses eligible for the R&D incentives are the following:

- Depreciation and rental expenses of new tangible and intangible fixed assets that are used by taxpayers in R&D activities (accelerated depreciation also may be applied for the equipment used for R&D activities);
- Salaries of personnel directly involved in R&D activities and related expenses;
- Maintenance and repair costs for tangible and intangible assets used for the R&D activities;
- Operating expenses, including expenses for contractor fees, costs of consumables, expenses for materials that are included in inventory, raw materials expenses, expenses for animals used in experiments, and similar products used in R&D activities;
- Overhead expenses that can be allocated directly or proportionally to the results of an R&D activities.

The above expenses must be incurred in connection with qualified research activities.

The R&D deduction is applicable even if R&D expenses are capitalized according to the accounting regulations.

No industry sectors are expressly excluded.

IP and jurisdictional restrictions

The R&D activities may be carried on in Romania or in other EU/EEA countries.

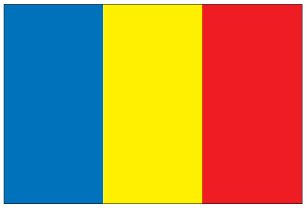
There is no specific restriction on the IP.

Other concerns

Tax incentives for R&D activities are granted separately for each project.

Documentation requirements apply as from March 2015. Taxpayers must provide documentation describing the research at the project level detailing the objective, period, field of research, financing, type of result and the novelty

Romania (cont.)



component of the research project. The documentation need not be submitted to the tax authorities for pre-approval, but the tax authorities will examine the documentation during a tax audit.

Additional deductions related to R&D expenses must be presented on a separate row in the annual profits tax return and separately in the Profits Tax Register. There is no specific administrative requirement for the accelerated depreciation method.

The taxpayer may obtain certification/expertise regarding its eligibility for the tax incentives, but this is not mandatory.

Romania (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction and accelerated depreciation	1. A 150% super deduction for the eligible research and development/related expenses. 2. Accelerated depreciation for equipment and devices used in R&D.	No	No

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes, R&D activities must take place in Romania or an EU/EEA member state.	Yes	No	No

Russia

Russia offers 150% super deduction for profits tax, reduced social security contributions, and a value added tax exemption for businesses operating in designated zones.

Background

The corporate tax rate is 20%. Russia offers a 150% super deduction, reduced social security contributions, and an exemption from a value added tax (VAT).

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 the R&D activities fail to produce a new product or new service. Losses attributable to super deductions may be carried forward for 10 years, but are not refundable if they cannot be utilized.

Depreciation: Accelerated depreciation may be taken on fixed assets used in R&D activities.

Reduced social security contributions: For the period 2015-2017, companies involved in developing software may qualify for reduced social security contribution rates as follows:

- 14% on annual compensation up to a cap of RUB 670K (standard rate is 30%),
- 12% on annual remuneration of RUB 670K–RUB 711K (standard rate is 10%), and
- 4% on annual remuneration exceeding RUB 711K (standard rate is 10%).

Special Economic Zones (SEZs): Russian legal entities registered in a Technical and Innovation SEZ with no external branches or representative offices can have their profits tax rate reduced from 20% to 0% depending on the region. These companies also benefit from a property tax exemption, free customs zone treatment, and a reduced rate of 14% for social security contributions. The approval process is complex.

Starting in 2010, companies operating within the Skolkovo Innovation Centre are entitled to an exemption from profit tax, VAT and property tax and a reduced rate of 14% for social security contributions.

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.

Eligible industries and qualifying costs

R&D expenditure must relate to the development of new products, the improvement of production processes, or the development of new services. The list of qualifying R&D activities includes: activities that often are performed by companies across many industries, such as oil and gas, telecommunications, transportation, and IT. Qualifying costs include labor costs, R&D contractor expenses, depreciation of equipment used for R&D, and other relevant and properly allocated expenses limited by a 75% cap of eligible salary costs.

IP and jurisdictional restrictions

There are no specific restrictions on whether activities must be conducted within Russia or whether overseas R&D contractors can be used. However, a contractor performing R&D for a third party cannot claim the incentive, but the third party can make the claim if it meets all other criteria.

The 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 are multiplied by 1.5 and amortized over a two-year period. The cost of acquiring IP is not eligible for the super deduction.

Other concerns

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

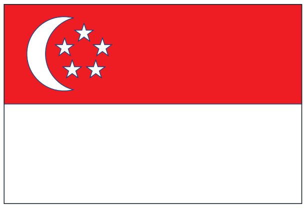
Contact:
Vasily Markov
Deloitte Russia
vmarkov@deloitte.ru
+7 812 703 7106

Russia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, reduced social security contributions, reduced tax rates and VAT exemption	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. Value added tax (VAT) exemption for certain incomes.	Yes, as required by the Russian tax authorities.	Losses for tax purposes resulting from super deductions can be carried forward for 10 years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	Certain limitations apply to the reduced social security contributions for companies involved in software development.	No	No

Singapore



Singapore offers super deductions under a complex multi-tiered system for R&D carried out both in Singapore and outside Singapore.

Background

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

Nature of incentives

Section 14D—100% 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 expenditure 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 expenditure 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 2025, the R&D expenditure need not be related to the entity's existing trade or business to qualify for the tax deduction, unless the R&D is performed outside Singapore.

Section 14DA(1)—50% additional deduction: Qualifying expenditure incurred with respect to R&D conducted in Singapore during tax years from 2009 to 2025 may, in addition to qualifying for the Section 14D base deduction, qualify for an additional deduction of 50% of qualifying expenditure.

Qualifying expenditure 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. Expenditure incurred on R&D performed outside of Singapore do not qualify for the additional deduction of 50%.

Section 14DA(2)—250%/300% enhanced deduction under the Productivity and Innovation Credit scheme (PIC): The enhanced deduction under the PIC scheme is granted for tax years 2011 to 2018. Under this scheme, the tax deduction of qualifying R&D expenditure on R&D carried out inside 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 SGD 400K of qualifying R&D expenditure incurred per year or SGD 600K for qualifying SMEs (effective from tax year 2015). This is in addition to the 100% base deduction under Section 14D and 50% additional deduction under Section 14DA(1) (for Singapore R&D only). With this enhancement, there will be 400% tax deduction available on the first SGD 400K of such expenditure incurred or SGD 600K for qualifying SMEs.
- The base deduction and additional 50% deduction, under Sections 14D and 14DA(1), respectively, remain applicable to qualifying R&D expenditure exceeding the SGD 400K or SGD 600K (for qualifying SMEs) expenditure caps per year.
- For the tax years 2013 to 2015, the PIC enhanced deduction is granted under a combined expenditure cap of SGD 1.2M or SGD 1.4M (for qualifying SMEs) over the three-year period. For the tax years 2016 to 2018, the combined cap is SGD 1.2M or SGD 1.8M (for qualifying SMEs) over the three-year period.

In addition, there is the option (in lieu of the tax deduction) to convert up to SGD 100K of qualifying expenditure into a non-taxable cash grant at the conversion rate of 60% (i.e., SGD 60K) for each tax year 2013 to 2018. There is also a dollar-for-dollar matching cash bonus (PIC bonus) for tax years 2013 to 2015, subject to an overall cap of SGD 15K for all three years combined and a minimum spending requirement of SGD 5K for each tax year.

Section 14E additional deduction: This provision allows an additional super deduction for R&D projects carried out in Singapore and approved by the Singapore Economic Development Board (EDB) before 31 March 2020.

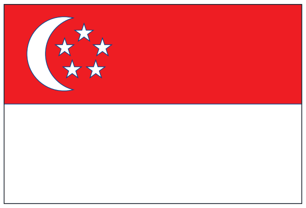
The combined total claims under Sections 14D, 14DA and 14E, with respect to the approved project, are capped at 200% of the taxpayer's actual R&D expenditure.

The Section 14E further deduction does not apply to expenditure for which the enhanced deduction under the PIC has been allowed.

Contact:
Tiong Heng Lee
Deloitte Singapore
thlee@deloitte.com
+65 6216 3262

Daniel Ho
Deloitte Singapore
danho@deloitte.com
+65 6216 3189

Singapore (cont.)



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" but does not include:

- Quality control or routine testing of materials, devices or products;
- Research in the social sciences or the humanities;
- Routine data collection;
- Efficiency surveys or management studies;
- Market research or sales promotion;
- Routine modifications or changes to materials, devices, products, processes or production methods; or
- Cosmetic modifications or stylist changes to materials, devices, products, processes or production methods.

IP and jurisdictional restrictions

The R&D expenditure 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 for R&D performed outside Singapore, a claim for deduction will be allowed to such entity, provided the R&D expenditure is related to the entity's existing trade or business and that any benefit that arises from the R&D accrues to the entity itself. Moreover, qualifying R&D expenditure also includes payments made under any cost-sharing agreement.

With respect to the Section 14D base and Section 14DA(2) PIC enhanced deductions, R&D may take place outside of Singapore but must relate to taxpayer's existing trade or business. The taxpayer must bear the financial risk of carrying out the R&D activities and effectively own and be able to commercially exploit the know-how, IP or other results of the R&D activities. No prior approval is required to claim these deductions.

Only R&D activities undertaken in Singapore qualify for the section 14DA(1) additional 50% deduction. The taxpayer must bear the financial risk of carrying out the R&D activities and effectively own and be able to commercially exploit the know-how, IP or other results of the R&D activities. No prior approval is required to claim the deduction.

For the Section 14E further 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 R&D expenses exceed taxable income, the excess may be carried forward and set off against future taxable profits, provided the shareholders of the company are substantially (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 one year is allowed, but is restricted to a cap of SGD 100K.

Singapore (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions	1. 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 SGD 400K of qualifying R&D expenditure incurred per year or SGD 600K for qualifying SMEs.	Government approval needed for 200% super deduction.	Unutilized R&D expenditure may be carried forward indefinitely, subject to substantial shareholders' test. They also may be carried back subject to certain restrictions. In lieu of tax deduction, there's an option to convert up to SGD 100K to cash grant at 60% for 2013-2018.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes—for 200% super and 14DA additional deductions. No—14D base and PIC enhanced deductions.	The combined total claims under Section 14E and Sections 14, 14D, 14DA and 14DF, with respect to the approved project, are capped at 200% of the taxpayer's actual expenditure. The 200% restriction does not apply to R&D expenditure that qualifies for the PIC enhanced deduction.	No	No

Slovakia

Slovakia offers a super deduction for qualified expenditures from 125% to 150%.

Background

Slovakia's corporate income tax rate is 22%.

Slovakia introduced a 125%-150% R&D super deduction effective for tax years beginning on or after 1 January 2015. A super deduction was not permitted under prior law. Slovakia also offers tax credits for companies located in less developed regions and for certain specified projects.

Nature of incentives

Super deduction: A super deduction equal to 125% of qualified costs incurred during the implementation of research and development projects are currently deductible from the tax base. An additional super deduction of 150% is available for the portion of the current qualifying R&D expenditure that exceeds the prior year qualifying expenditure. If the super deduction cannot be utilized in the year it is claimed, then it can be carried forward and utilized within the next four taxable periods. This benefit cannot be combined with any other type of incentives.

Tax relief for technological centers: In order to encourage companies to locate (and expand) in less developed regions of Slovakia, the government offers state aid in the form of a tax credit. The amount of the tax credit tax is determined by the Ministry of Economy and can range from 25% to 35% of qualified costs (capital investment or 2 year labor costs), depending on the region. The tax credit is applied against annual income tax liabilities until it is fully utilized or the credit expires (10 years after it is granted). For companies that expand, a special formula is applied to determine the amount of the credit. In lieu of a tax credit, companies can also apply for cash grant under this program.

Tax relief for R&D projects: The Ministry of Education can award a tax credit to companies that pursue certain types of specified projects that entail basic/applied research, experimental development, or certain feasibility studies. The costs that are considered in determining the amount of the credit includes operational costs, as well as the cost of IP protection and the reimbursement of wages for the temporary assignment of external researchers. The percentage applied by the government to eligible costs to determine the magnitude of the tax credit depends on the size of the company (a higher percentage is applied to SMEs) and the type of project (a higher percentage is applied to research, as distinguished from development, projects). Companies can also apply for cash grants.

Other non-tax related R&D incentives: Cash grant programs are also available for research and development including capital expenditure (CAPEX) investment or operational costs (OPEX) from EU funds and directly from the Slovak government.

Eligible industries and qualifying costs

R&D Super deduction: Qualifying research and development has a measurable element of novelty and addresses technical uncertainties. Qualifying research can address issues that are known in the industry, as long as the taxpayer can prove that it must discover the information it needs to develop new/improved products, services, or processes because the information is inaccessible, unusable or was simply not available at the time the project was commenced.

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.

The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual.

Qualifying expenses include direct costs (e.g., wage costs, costs of material or overhead expenses) and indirect costs (e.g., depreciation of assets or utility costs).

Fees paid for subcontracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutes. Fees paid to certified private R&D organizations are also eligible as long as the organization does not also claim the super deduction for the costs it incurred in providing the qualified services. The super deduction excludes expenses paid through government and public subsidies.

Contact:
Martin Rybar
Deloitte Slovakia
mrybar@deloittece.com
+421 2 582 49 113

Slovakia (cont.)

Technological centers: Generally, all industries, except industries excluded for EU regional aid (e.g., agriculture, steel industry), are eligible to apply for the tax credits offered to technological centers. Technological centers can be located anywhere in Slovakia, except for Bratislava region. The eligibility criteria for technological centers are:

- The acquisition of tangible and intangible assets in an amount of at least EUR 500,000, of which at least 50% is covered by the equity of the applicant.
- At least 70% of the employees have a degree from an accredited university.
- Establishing or expanding the technological center will result in at least 30 new jobs.

Companies are further required to operate the newly created or expanded part of technological centers for at least five years, but not less than the period it takes to fully utilize the tax credit.

Tax relief for R&D projects: Eligible costs include direct costs (e.g., wage costs, costs of business trips, costs of repairs, procurement, or overhead expenses) and indirect costs (e.g., depreciation of assets or costs on energy) depending on the type of R&D project.

In order to be awarded tax relief, the project must result in a minimum level of qualified expenditure. The minimum expenditure depends on the size of the entity (SME or large enterprise) and type of the activity (applied or basic research):

- Applied research: EUR 1.5M (SME) to EUR 3.5M (Large Enterprise)
- Basic research: EUR 250K (SME) to EUR 1M (Large Enterprise)

Entities that are awarded tax relief must continue operating the R&D workplace for at least five years after the incentive is fully utilized.

IP and jurisdictional restrictions

There are no IP registration requirements.

Other concerns

R&D Super deduction: Government pre-approval is not required for claiming super deductions. There is, however, a documentation requirement. The taxpayer must prepare documentation specifying the qualified activities that the researchers plan to undertaken in the project before the project commences. This documentation typically includes: (i) a description of the project specifying the objectives; (ii) a project schedule specifying the phases of the project and (iii) the details regarding the administration of the project including project staffing, and project budgets.

Technological centers: The incentives for technological centers are subject to the approval of the Slovak government. The application process is time consuming and difficult to complete.

Tax relief for R&D projects: R&D incentives depend on the availability of funding and the application process is open only if there is a published call. This incentive has many practical limitations and is rarely used.

Slovakia (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions, tax credits and grants	1. 125% - 150% super deductions 2. Tax credits for companies located in less developed regions and for certain specified projects. 3. Grants	Yes, for tax credits for companies located in specified regions and for projects qualifying under the Act on R&D Incentives.	Super deductions can be carried forward for 4 years. The tax credits for qualifying technological centers and for R&D projects (qualifying under the Act on R&D Incentives) must be utilized within 10 years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	Tax credits for technological centers are limited to the amount of the tax credit tax is determined by the Ministry of Economy can award tax credits to technological centers, but the award is limed to a tax credit ranging from 25% to 35% of qualified costs (capital investment or 2 year labor costs), depending on the region.	No	Industries excluded from EU regional aid (e.g. agriculture, steel industry) are not eligible for the tax credits that are available to technological centers.

South Africa

South Africa offers a 150% super deduction for eligible R&D expenditure

Background

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

Nature of incentives

Super deduction: South Africa provides a super deduction equal to 150% of the qualifying operational expenditure incurred directly for purposes of R&D after 1 October 2012.

Pre-approval from the Department of Science and Technology (DST) is required to qualify for the 150% super deduction.

Accelerated depreciation: Capital expenditure incurred to develop or construct assets used in the conduct of qualifying R&D activities qualify for favorable accelerated depreciation.

For new and unused plant or machinery purchased for and placed into service prior to 1 October 2012:

- 50% in the year that the asset is brought into use for the first time by the taxpayer; and
- 30% in the second year of assessment; and
- 20% in the final year of assessment.

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

- 20% in the year 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 typically are eligible for the super deduction include, but are not limited to:

- Pharmaceuticals—costs incurred in developing generic medicines and conducting related clinical trials are specifically included from 1 October 2012.
- Software services
- Software development
- Design Centers
- Automotive
- Energy and utilities
- Mining and 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, functional design, computer program or knowledge essential to the use of such invention, functional design or computer program; or
- Significantly improving any invention, functional 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 its trade and business. Expenses incurred while conducting the following activities do not qualify as R&D expenditure:

- Market research, market testing or sales promotion;
- Financing, administration, compliance and similar expenditure;
- Routine testing, analysis, collection of information or quality control in the normal course of business;
- The development of internal business processes. There is a limited exception, however, if the internal business processes are mainly intended for the sale of, or for granting the use of, or right of use, or permission to use, to persons who are not connected parties in relation to the person carrying on that R&D; 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;
- The creation or enhancement of trademarks or goodwill;
- Obtaining the grant, restoration and extension of a patent;
- The registration and renewal of a trademark;

Contact:
Newton Cockcroft
Deloitte South Africa
ncockcroft@deloitte.co.za
+27 11 806 5298

South Africa (cont.)

- The registration and extension of registration of a design; and
- The acquisition of an invention, patent, design, copyright, other similar property or knowledge essential to the use of such patent, design, copyright or other property or the right to have such knowledge imparted.

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.

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.

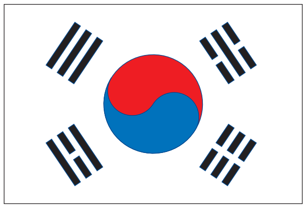
Preapproval is required from the DST. Only expenditure incurred from the date of submission of an application to the DST may qualify.

South Africa (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deductions and accelerated depreciation	1. 150% volume-based super deduction. 2. Accelerated depreciation for R&D related capital expenditure.	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.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	IP must be created in South Africa, but it does not need to be held within South Africa.	No

South Korea



In South Korea, the 2015 tax incentives include incremental and volume-based credits, as well as an investment tax credit for R&D equipment.

Background

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

Nature of incentives

Small and medium-sized enterprises (SMEs):

- The credit equals the greater of: 1) 50% of current year R&D expenses that exceed the prior year's R&D expenditure; or 2) 25% of current R&D expenditure.
- 30% tax credit computed on current R&D expenditure if the R&D expenditure is incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.
- If an SME purchases or transfers certain IP 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 or 50% of the capital gains resulting from the transfer.

Large companies (non-SMEs):

- The credit equals the greater of: 1) 40% of the current year's R&D expenditure exceeding the prior year's R&D expenditure; or, 2) 8% of the current year R&D expenditure (for certain large companies of which annual revenue is less than KRW 500B), and for all other large companies, the R&D expenditure for the current year multiplied by the following rate capped at 3%: 2% 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 expenditure if the R&D expenditure is 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 five years.
- Investment tax credit for 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 five years.

Eligible industries and qualifying costs

R&D activities include research conducted by the certified R&D department of the company and/or qualifying bodies (i.e., universities, colleges, research institutions) to develop technology for the company, trademark 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). However, any R&D expenditure resulting from any government subsidy is not eligible for R&D tax credit.

IP and jurisdictional restrictions

All R&D expenditure directly related to the R&D activities of the company may be claimed in the tax credit computation regardless of 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.

Other concerns

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

Proposed legislation for 2015 would reduce the tax credit for investment in R&D facilities by reducing the credit rate for large corporations from 3% to 1% and for SMEs from 5% to 3%. The revised rule would be effective for investments made on or after 1 January 2016.

Contact:
Jee Won Kwon
Deloitte South Korea
jekwon@deloitte.com
+82 2 6676 2416

South Korea (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits, investment tax credit, and IP transfer tax credit	1. Volume-Based and Incremental Tax credits for SMEs and large companies who perform qualified research. 2. Investment tax credits for capital assets used in research. 3. Tax credit for SMEs who purchase or transfer certain prescribed IP.	No	Unused credits may be carried forward five years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No, except for research subcontracted to academic institutions, which must be located in South Korea.	Certain limitations apply to large company tax credits.	No	The R&D tax credits are not allowed for R&D service providers.

Spain

Spain offers a patent box and a wide variety of expenditure-based tax incentives, but limits utilization.

Background

The Spanish corporate income tax rate is 28% (25% as from 2016). Spain applies different tax rates for SMEs (25% to 28% in 2015 and 25% as from 2016), oil companies (33%), savings banks (30%), Real Estate Investment Trusts (REITs) (19%), and investment funds (1%). Spain offers an immediate deduction for qualified R&D expenditure, as well as research tax credits for technological innovation.

Nature of incentives

General rules for R&D and technological innovation tax credits:

Volume-based credit: The volume-based credit is equal to 25% of the R&D expenses incurred in the tax year.

Incremental credit: The incremental credit equals 42% of the amount of the current year expenditure exceeding the average of such expenditure incurred in the preceding two tax years. The incremental credit is in addition to the volume-based credit. 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.

Technological innovation: Expenses incurred for research activities that result in technological innovation for existing products receive a 12% credit. However, the maximum allowed expenses is limited to EUR 1M for the acquisition of know-how, licenses and patents.

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 and the Spanish tax authorities will have a period of 10 years to review the tax credits that have been accredited but not utilized.

To obtain legal certainty, a taxpayer can apply to the Spanish tax authorities to validate the qualification of a research project.

Special rules enable taxpayers to qualify for refunds for unutilized credits. The regime allows taxpayers to elect to reduce the credits they could otherwise utilize by 20% and then be subject to the following annual credit limitations:

- EUR 1M if the credit was attributable to technological innovation related expenses; or
- EUR 3M for the sum of R&D and technological innovation related expenses; or
- EUR 5M for the sum of R&D and technological innovation related expenses for companies with expenditure in R&D exceeding 10% of the net revenues. In these cases, companies that are unable to apply the tax credits due to an insufficient amount of corporate income tax due have the option of obtaining a cash refund with the same amount limitations.

The special rules enabling refunds of unutilized credits apply to taxpayers satisfying the following rules:

- At least one year must pass from the end of the tax year in which the tax credit was generated but not utilized.
- The average number of staff or the average number of staff involved in R&D and technological innovation must be maintained from the end of the tax period in which the tax credit is generated until the 24 months following the end of the period in which the corporate income tax return with the application or payment is filed.
- An amount equivalent to the tax credit applied or paid (i.e., "cash refund") must be invested in R&D and technological innovation for the same period mentioned in the previous bullet.
- The company must obtain a pre-validation report on the qualification of the activity as R&D and technological innovation or a previous valuation agreement on the expenses and investment in these activities.

Patent Box: In Spain, 60% of the net income from the grant and sale of intangible assets (i.e., patents, drawings, models, know-how) created by the entity that at least has borne 25% of the costs, is excluded from taxable income.

Contact:
Cayetano Olmos
Deloitte Spain
colmos@deloitte.es
+34 932 304 867

Spain (cont.)

Eligible industries and qualifying costs

All industries are eligible for R&D tax credits for costs incurred in qualifying activities.

R&D activities include original planned investigation aimed at acquiring new knowledge and greater understanding in scientific or technological fields. Development is considered to be the application of the results of research or of any other kind of scientific knowledge for the manufacture of new materials or products or for the design of new production processes or methods, as well as for substantial technological improvement of materials, products, processes, or previously existing methods (including software development).

Qualifying R&D expenses include wages paid to employees engaging in research and the cost of investments in fixed assets that are exclusively dedicated to R&D activities. Indirect expenses are excluded.

For tax years prior to 2015, software development did not qualify for research tax credits unless it involved a significant scientific and technological advancement. The definition of qualifying R&D was changed for 2015 and now includes advanced software activities without additional limitations. Advanced software development activities generally are limited to developments that are innovative. For example, pilot projects related to the animation developed for video games are considered innovative.

IP and jurisdictional restrictions

To qualify for any credit, all qualified R&D must take place in Spain or an EU/EEA member state. IP ownership does not affect whether the taxpayer can claim the credit.

Other concerns

If proposed rules relating to the patent box are enacted, the following changes in the law will apply from 1 July 2016:

- The requirement that the company's stake in the creation of the intangible asset must be at least 25% would be abolished.
- The current fixed 60% exemption would remain applicable for entities that created the intangible asset, but would be proportionally reduced for entities that did not fully create the intangible.

Spain (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits	1. Volume-based tax credits for 25% of qualified expenditure. 2. Incremental credit equal to 42% of the amount of current year expenditure exceeding the average of the two previous years. 3. Credit for 17% of wages paid to qualified researchers dedicated exclusively to R&D. 4. Credit for 8% of amounts invested purchasing R&D equipment used in qualified R&D. 5. Special Innovation Credit 6. Patent box reduces the tax rate for income attributable to patent.	No	Unused credits may be carried forward for18 years. Taxpayers can elect to reduce unutilized credits that could otherwise be carried forward in exchange for immediate refunds of certain tax credits.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
All qualified R&D must take place in Spain or an EU/EEA member state.	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. In computing the Special Innovation Credit, the maximum allowed expenses is limited to EUR 1M for the acquisition of know-how, licenses and patents.	No	No

Turkey

Turkey offers incremental super deductions and exemptions from employment taxes, as well as government-funded contributions to social security and grants.

Background

Turkey's general corporate tax rate is 20%.

Nature of incentives

A 100% deduction of R&D expenditure for qualifying R&D projects.

A deduction of 50% of the R&D expenditure increase over the prior year if the number of full-time equivalent R&D personnel exceeds 500.

An exemption of 80% (90% for Ph.D. personnel) of income tax withholding on wages for employees conducting or supporting R&D (except for public employees).

Government payment of 50% of the employer's share of the social security premium for five years until 31 December 2024.

An exemption from stamp duty for all documents prepared for R&D activities.

Recording of grants received from government entities, voluntary trusts and international funds in support of R&D activities in a special fund account instead of being classified as income and added to the tax base.

Grants for new scientists in the form of technology-initiative capital up to TRY 100K.

Special incentives for operating in Technology Development Zones (TDZ):

- 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. (Support personnel wages are also in the scope of exemption, but the number of support personnel cannot exceed 10% of total number of R&D-related personnel).

The Scientific and Technological Research Council of Turkey (TUBITAK) and Turkish Technology Development Foundation (TTGV) and other related institutions may 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.

Under the 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.

Eligible industries and qualifying 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 expenditure 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 G&A expenses are excluded.

IP and jurisdictional restrictions

Tax incentives for R&D are available even if the research is unsuccessful, i.e., does not result in IP. If, however, IP results from qualifying R&D, there is no requirement that the Turkish company own the IP.

Other concerns

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

R&D activities must be certified by a Sworn Fiscal Consultant (SFC). A taxpayer that benefits from R&D deductions must provide a SFC certification report to its tax office certifying that its R&D deductions are computed and applied correctly.

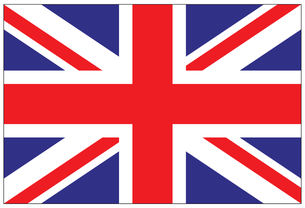
Contact:
Burak Inam
Deloitte Turkey
binam@deloitte.com
+90 312 295 4768

Turkey (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, income tax withholding incentives, and grants	1. An incremental super deduction comprised of: a. 100% deduction of R&D expense for qualifying R&D projects and b. If the number of full-time- equivalent R&D personnel exceeds 500, 50% of the R&D expenditure increase compared to the previous year also can be deducted. 2. An exemption of 80% (90% for Ph.D. personnel) of income tax withholding on wages for employees conducting or supporting R&D (except for public employees). 3. 50% of the employer's share of the social security contribution is paid for by the government for five years 4. Income tax withholding incentives. 5. Exemption 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 formula set forth in the Tax Procedurals Law.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	No	No

United Kingdom



R&D incentives in the UK now include super deductions, refundable credits, and a patent box.

Background

The headline corporate tax rate is 20%, reduced from 21%, effective as of 1 April 2015.

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 super deductions and credits that vary depending on the size of the taxpayer. (i) a super deduction scheme for companies that fall within the definition of a SME and (ii) all other companies (large companies) can elect an R&D credit or a super deduction. Generally, the criteria for qualification as an small and medium-sized company (SME) follows the EU definition except that the criteria are all doubled. The company must have fewer than 500 employees and either gross revenues of less than EUR 100M or gross assets of less than EUR 86M. Affiliated companies generally are considered in determining if a company qualifies as an SME.

SMEs qualify for the following expenditure-based tax incentives:

- 230% super deduction (225% before 1 April 2015; 200% before 1 April 2012).
- Cash credits are available for SMEs in a loss position, up to 33.35% of the qualifying expenditure (32.63% before 1 April 2015, and 24.75% before 1 April 2014).

Large companies qualify for the following expenditure-based tax incentives:

- Until 31 March 2016, a 130% super deduction is available; or
- From 1 April 2013, large companies can elect to claim a taxable credit of 10%, increased to 11% from 1 April 2015. From 1 April 2016, only the taxable credit will be available.

Cash credits are available for large companies under the R&D expenditure credit scheme if the claimant company does not have corporate tax liabilities.

Unused benefits may be carried forward to utilize in future periods.

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

Capital expenditure is excluded from the volume-based incentives, but a full deduction for capital costs incurred for R&D can be claimed in the year the expenditure is incurred, rather than being depreciated for tax purposes in accordance with the usual rules. An election may, however, be made for the company to claim the volume-based incentives on expenditure included in the balance sheet cost of intangible assets as revenue for tax purposes if certain criteria are met.

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 has been phased in from 1 April 2013 and applies a 10% rate of corporation tax to profits generated from the patents.

Eligible industries and qualifying costs

The type of industry has no bearing on the availability of the incentive. Qualification is based solely upon the nature of the activities.

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

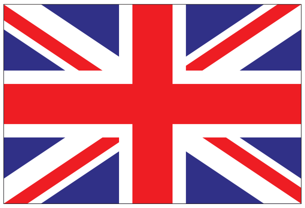
- Employing staff who are directly and actively engaged in carrying out R&D.
- SMEs can claim 65% of R&D-related subcontract costs. Large companies can claim subcontract costs only if they are paid to a university, health authority, charity, scientific research organization, individual, or a partnership of individuals.
- Payments to volunteers for participating in clinical trials.
- Expenditure 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 US company that is not subject to UK tax.

SMEs cannot claim the more advantageous SME relief on costs that are subsidized or related to activities that were contracted to them, although they may be able to make a claim under the less generous large company schemes.

Contact:
David Cobb
Deloitte United Kingdom
dcobb@deloitte.co.uk
+44 20 7007 2996

United Kingdom (cont.)



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 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 credit scheme is that a cash payment can be received by companies that 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 11% (10% prior to 1 April 2015) and the credit is taxable. Cash payments to companies with no tax liability are paid net of tax; however the tax withheld is not lost, and may be carried forward to set against future corporation tax liability.

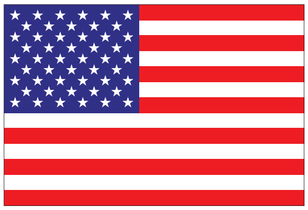
The new R&D credit can be accounted for like a grant, i.e., as a reduction from the qualifying expenditure, thus boosting operating profits. The current R&D expenditure scheme does not affect the benefit currently available to SMEs.

United Kingdom (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction, credit and patent box	1. 130% volume-based super deduction for large companies or a 10% refundable credit (increased to 11% from 1 April 2015). 2. 230% volume-based super deduction for SMEs and, if the SME is in a loss position, a 33.35% refundable credit. 3. A patent box regime enables companies to reduce their tax rate on income attributable to patented technology to 10%.	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 three years. All taxpayers qualify for refundable tax credits in lieu of super deductions.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Research that is supervised by UK company personnel can be performed outside the UK.	SMEs tax benefits are capped at EUR 7.5M in excess of what their deduction/credit would have been had it been a large company.	No	No

United States



Regulations providing important interpretative guidance were issued during 2014 and 2015 in the United States.

Background

Federal corporate taxable income is subject to graduated tax rates, ranging from 15% to 35%. Most states also impose an income tax with rates ranging from 4.6%–12%. The average combined federal/state corporate tax rate is 39.1%.

The US offers a nonrefundable research tax credit. Forty-five states offer a research tax credit that is similar to the federal tax credit, but at a lower credit rate. There are, however, a few states that offer refundable credits.

Nature of incentives

Taxpayers can elect to report an Alternative Simplified Credit or a Traditional Research Tax Credit:

Traditional research tax credit (20%): The "traditional credit" is equal to 20% of the amount of the qualified research expenses (QREs) exceeding a "base amount." The base amount is computed by: (i) first determining the ratio of qualified research expenses (QREs) to gross receipts for the period of 1984–1988. This ratio is called the fixed base percentage and reflects the amount of gross receipts a company has historically committed to R&D. There is a special start-up company rule that applies in determining the fixed base percentage if the company was not around during the base period (1984 – 1988). The fixed base percentage is then multiplied by the average gross receipts of the taxpayer for the four years preceding the credit year. The product of this calculation is the base amount, i.e., reflecting the amount of gross receipts a company would expect to commit to qualified research. The base amount must be adjusted for acquisitions and dispositions. This can be challenging considering that records dating back to the early 1980s are often not readily available.

Alternative Simplified Credit (14%): The alternative simplified credit (ASC) is equal to 14% of the excess of the QREs over 50% of the average of the previous three years' QREs. The ASC base amount is therefore much easier to determine than under the traditional method and most taxpayers elect the ASC.

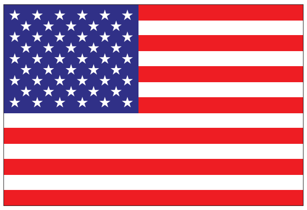
- There also are special credits for basic research (i.e., research with no commercial objective), payments to energy research consortium, and research relating to orphan drugs (providing a credit equal to 50% of the amount spent on clinical research).

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 to report the traditional credit at 13% or the ASC at 9.1%. This election must be made annually on a timely filed original income tax return.
- There is a minimum base amount applicable only to the traditional credit equal to 50% QREs. 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% QREs.
- There is no minimum base amount for the alternative simplified credit. If, however, there is no qualified research spending in any one of the previous three years, the credit is equal to 6% of qualified research spending in the current tax period.
- The cumulative effect of limiting deductions (or electing a reduced credit rate of 9.1%) for the ASC and the base calculation rules, is that the maximum value of the ASC is less than 9.1% of current qualified R&D spending. If qualified research spending is consistent year-over-year, then the maximum value of the ASC is about 5% of qualified R&D spending.
- The US offers tax credits to offset current, prior, and future income tax liability. Unused research credits can be carried back one year and carried forward 20 years. While there is no cap on the amount of credits that can be utilized, certain general business credit limitations apply.

Contact:
Mick Kane
Deloitte United States
mkane@deloitte.com
+312 486 9906

United States (cont.)



Interpretive guidance was issued by the government during 2014 and 2015 to resolve several issues:

Supply Regulations: The government issued final regulations in July of 2014 regarding the treatment of prototype supplies used in research. The regulations provide that the costs incurred to construct a "pilot model" are qualified research expenses. A "pilot model" is any representation or model of a product that is produced to evaluate and resolve uncertainty concerning the product during the development or improvement of the product. The term includes a fully-functional representation or model of the product or a component of a product.

The regulations further provide that it is irrelevant whether R&D results in a product that is ultimately sold or used in the taxpayer's trade or business. Consequently, the cost of supplies used to construct a pilot model for design testing generally will qualify as a QRE even if the research is successful and the product developed through the R&D is ultimately sold or the production equipment is placed in service.

The regulations illustrate the application of the new rules with several examples. One example concerns the cost to develop an experimental airplane, concluding that the entire cost to construct the airplane is a qualified research expense because the airplane was constructed to test whether the airplane satisfied the taxpayer's design requirements.

The new supply regulations generally will apply to the taxpayer's current tax year and the preceding three years.

Internal Use Software Proposed Regulations: Prior to the issuance of these proposed regulations in January of 2015, the legal standard for qualifying internal-use software was unclear. Expenses incurred for developing software that was primarily for internal use could qualify for the research credit only if it was highly innovative. The proposed regulations define software developed primarily for internal use to include only software developed to perform G&A functions. Importantly, the proposed regulations provide that software is not developed primarily for internal use if "[t]he software is developed to enable a taxpayer to interact with third parties or to allow third parties to initiate functions or review data on the taxpayer's system." Examples of this type of software, as noted in the proposed regulations, includes: "software developed for third parties to execute banking transactions, track the progress of a delivery of goods, search a taxpayer's inventory for goods, store and retrieve a third party's digital files, purchase tickets for transportation or entertainment, and receive services over the internet."

The Preamble to the proposed regulations specifies that this new guidance is intended to expand the opportunities for taxpayers to claim research credits for software-related expenses.

While the regulations have been proposed, but not finalized, the government will allow taxpayers to rely on the positions expressed in the proposed regulations for any tax year ending on or after 20 January 2015.

Eligible industries and qualifying 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 research, and supplies used in the research process. Overhead and capital expenditure are excluded.

IP and jurisdictional restrictions

There is no restriction on the location of any resulting IP. Qualifying activities must be performed within the US and the related qualifying costs must be incurred by a US taxpayer (although such costs may be reimbursed by a foreign affiliate).

Other concerns

Taxpayers may amend prior year returns to claim tax credits if the tax year is open for assessment of tax (generally the three prior tax years). Prior to 2015, the ASC had to be elected on a timely filed original return. However, final regulations issued in February 2015 provide that the ASC now may be claimed on amended returns as long as no research credit was reported for the tax year that is being amended. This new rule can generally be applied to the three tax years preceding the current tax year.

While the US offers pre-filing agreements to resolve whether taxpayers are entitled to research credits prior to the filing of the return, such agreements are rarely used.

United States (cont.)

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits	Incremental research tax credits	No	Unused credits may be carried back one year and forward 20 years.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	No	No

Summary of key criteria

Refundable Research Tax Credits

Country	Explanation
Australia	SMEs are eligible for a refundable tax credit of 45% of qualified research expenses (QREs), but QREs are not deductible. SMEs are entities with gross receipts of less than AUD 20M that are not more than 50% controlled by exempt entities.
Austria	A refundable 12% volume based tax credit is available for all taxpayers to the extent the credit exceeds the amount of the company's tax liabilities (10% for fiscal years commencing before 1 January 2016).
Belgium	Excess tax deductions may be converted into a tax credit refundable after five years if not utilized.
Canada	35% federal ITCs for small Canadian-controlled private corporations (CCPCs) on up to CAD 3M of qualified expenditure per year. This limit applies to all corporations in an associated group. The corporate group of companies must have less than CAD 800K of taxable income and less than CAD 50M in taxable capital employed in Canada (TCEC) to qualify for the refundable ITCs. These caps are based on the prior year.
France	If research tax credits are not utilized within three years, the taxpayer receives a refund for the unutilized credit. Research credits are refundable for SMEs, new companies, young innovative companies and companies facing financial issues.
Ireland	Unused credits may be carried back one accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over three years), subject to certain limitations and caps.
Singapore	There is an option to convert up to SGD 100K of tax deductions into a non-taxable cash grant for each qualifying tax year from 2013 to 2018 at the rate of 60% (i.e., SGD 60K).
Spain	The requirements that must be met to qualify for refundable credits limit opportunities for refunds.
United Kingdom	Cash credits are available for SMEs in a loss position, up to 33.35% of qualified expenditure. Large companies can elect to claim a taxable credit of 10%, increased to 11% from 1 April 2015.

Location of IP May Impact Research Incentives

Country	Explanation
Belgium	The R&D Tax Credit and Investment Deduction benefit may be claimed for R&D work performed outside Belgium, but the claimant must retain some associated IP in Belgium to receive the tax benefit. There is no IP ownership requirement for the partial wage tax exemption.
China	To obtain HNTE status, any resulting IP rights must be located in China. Approval authorities often look at whether IP will be retained in China in granting approval to take super deductions, but this is not required by law.
Germany	IP generally must remain in Germany to qualify for certain grant opportunities.
Israel	The location of IP is a factor the authorities review in evaluating grant applications, but otherwise is not legally required.
Malaysia	While tax incentives generally require that the R&D work be performed in Malaysia, there are exceptions.
Mexico	While IP does not have to be retained in Mexico, this factor may be considered by the authorities in deciding whether to fund the R&D project.
Netherlands	Ownership of IP is an important consideration in qualifying for the innovation box.

Qualified Research Must Be Performed Within the Country

Country	Explanation
Austria	Activities must take place in Austria.
Brazil	Only expenditure incurred within Brazil is eligible for the incentives.
Germany	Qualified activities must be conducted and R&D costs must be incurred within Germany.
India	R&D activities must be conducted in India.
Israel	Qualified activities must take place in Israel. The Israeli company must incur the R&D-related expenditure.
Mexico	Qualified activities must take place in Mexico.
South Africa	R&D expenses must relate to activities that are undertaken within South Africa.
Turkey	Qualified activities must take place in Turkey.
United States	Qualifying activities must be performed within the United States and the related qualifying costs must be incurred by a US taxpayer (although such costs may be reimbursed by a foreign affiliate).

Countries That Allow Some Research to be Performed Outside the Country

Country	Explanation
Australia	Up to 50% of the total project costs of R&D activities can be physically performed outside Australia and remain eligible for benefits if an Advanced Overseas Finding has been approved by the government.
Austria	Activities must take place in Austria with the exception of subcontracted research. Subcontracted research must follow management and direction from an Austrian business or branch or PE in Austria. Further, the subcontractor must be based within the EU/EEA.
Belgium	The R&D tax credit and investment deduction may be claimed for R&D work performed outside Belgium, but the claimant must retain some associated IP in Belgium to receive the tax benefit.
Canada	Research generally must be undertaken in Canada to qualify as SR&ED, but where employees of the claimant are working outside of Canada, the amount of eligible wages for SR&ED performed outside Canada is limited to 10% of eligible wages claimed for SR&ED performed in Canada.
China	Qualified activities must take place in China. However, less than 40% of the activity qualifying for the HNTE incentive may take place outside of China.
Czech Republic	Not all R&D activities must occur within the Czech Republic to qualify for a super deduction, but qualified expenses must be tax deductible expenses of the Czech taxpayer.
France	Qualified activities must take place in the EU/EEA.
Greece	While there are no specific jurisdictional restrictions, the need to carry on research outside of Greece must be disclosed to General Secretariat of Research and Technology (GSRT) and could influence whether the GSRT issues a certificate approving R&D expenses.
Ireland	Qualified activities must take place within Ireland or EU/EEA. However, the credit is denied when the activities take place in an EU/EEA country that grants a corresponding tax deduction for such expenditure.
Italy	There are limited situations in which research can be performed outside the country.
Latvia	A company may outsource R&D to Latvian or the EU/EEA scientific institutions/test laboratories provided they are publicly recognized or meet certain criteria in Latvian law.
Malaysia	While tax incentives generally require that the R&D work be performed in Malaysia, there are exceptions.
Netherlands	To claim the WBSO and RDA incentives, the R&D activities must take place within the EU and be performed by employees on the Dutch payroll.
Romania	All R&D activities must take place in Romania or an EU/EEA member state.
Singapore	Some of the super deductions can be claimed for qualified research performed outside the country.
South Korea	Research activities may take place outside of South Korea, but any subcontracted research to university or college must be located in South Korea.
Spain	Qualified activities must take place in Spain or an EU/EEA member states.
United Kingdom	Research activities may take place outside the United Kingdom, but the work must be supervised by the UK company.

Countries that Permit Qualified Research Activities to be Performed Outside the Country Without Any Restriction

Country	Explanation
Croatia	There is no restriction on the location of the research activities.
Hungary	Qualified research can be conducted outside the country.
Japan	Qualified research can be conducted outside the country.
Lithuania	Qualified activities can be undertaken anywhere, provided a Lithuanian entity pays for the research.
Portugal	Research activities may take place outside of Portugal, but the qualified expenses must be incurred by a Portuguese entity.
Russia	There are no specific restrictions on whether activities must be conducted within the country or on whether overseas R&D contractors can be used.

Qualified Contract Research Allowed

Country	Explanation
Australia	Fees paid to contractors to perform research on the taxpayer's behalf is a qualified research expense as long as the work performed by the contractor is directly related to the R&D activities.
Austria	Subcontracted research expenses may be claimed by the party funding the research up to a credit cap of EUR 1M per year. The subcontractor must be a qualifying EU/EEA institution and not a related party.
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 qualify.
Canada	80% of the fees paid to contractors to perform qualified research qualify for the research credit.
China	Contract research expenses qualify for the super deduction.
Croatia	Costs incurred for contractors who provide research services are eligible expenses.
Czech Republic	Qualified contract research expenses are limited to R&D services provided by public universities and public research institutions.
France	There is a cap on private subcontracted research equal to three times the other qualifying expenses (up to EUR 10M in subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to EUR 2M.
Greece	Contract research is allowed by General Secretariat of Research and Technology (GSRT) approved organizations, such as public institutes, labs and research organizations.
Hungary	Contract expenditure is a qualified expense.
India	A super deduction of 125% to 200% is permitted for specified payments made to prescribed entities carrying out R&D in India.

Qualified Contract Research Allowed (cont.)

Country	Explanation
Ireland	A fee paid to a contractor to perform research on the taxpayer's behalf is a qualified research expenditure if the contractor is not related to the taxpayer. For periods starting on or after 1 January 2014, fees paid to third-party contractors are limited to the greater of EUR 100K or 15% of the total qualified research expenditures. Where the R&D activities are contracted to a university or research institution, the limit is 5% of the total qualified research expenditures.
Italy	Contract research expenses paid for conducting research generally are eligible for the incremental research credit.
Japan	Contract expenditure is a qualified expense for SMES and large companies.
Latvia	Contract research is allowed, but only where it is provided by publicly recognized scientific institutions in Latvia or similar institution within the EU/EEA.
Lithuania	Purchased services, such as consultation services related to research activities, are qualified expenditure.
Malaysia	Contract expenditure is a qualified expense if incurred directly for the conduct of qualified research.
Netherlands	Contract expenditure is a qualified expense for the RDA incentive.
Portugal	Expenses incurred for contract research qualify for research incentives as long as the entity is recognized as possessing R&D capabilities. (There are some limited exceptions).
Russia	Contract expenditure is a qualified expense.
Singapore	Singapore offers a variety of super deductions and contract research expenses qualify for certain specified deductions. For example, payments are made to a R&D organization for R&D performed outside Singapore qualifies for the Section 14(DA)(2) 300% enhanced super deduction provided that: (i) the R&D expenditure is related to the entity's existing trade or business, (ii) the benefits from the R&D accrue to the taxpayer, and (iii) the taxpayer bears the financial risk of loss in the event the research is unsuccessful. Moreover, qualifying R&D expenditure also includes payments made under any cost-sharing agreement.
Slovakia	Fees paid for subcontracted R&D services are qualifying expenses if the work is subcontracted to public universities or public research institutes. Fees paid to certified private R&D organizations are also eligible as long as the organization does not also claim the super deduction for the costs it incurred in providing the qualified services.
South Korea	Contract expenditure is a qualified expense if paid to university or other research institutions.
Turkey	Contract expenditure (outsourced benefits and services) is a qualified expense.
United Kingdom	SMEs can claim 65% of subcontracted costs. Large companies only can claim subcontracted expenses if paid to university, health authority, charity, scientific research organization, individuals, or a partnership of individuals.
United States	65% of the amount paid to contractors to perform research on the taxpayer's behalf within the United States are QREs if: (i) the taxpayer bears the risk of loss in the event the research is unsuccessful e.g., time-and-materials contracts and (ii) the taxpayer retains a right to the research results.

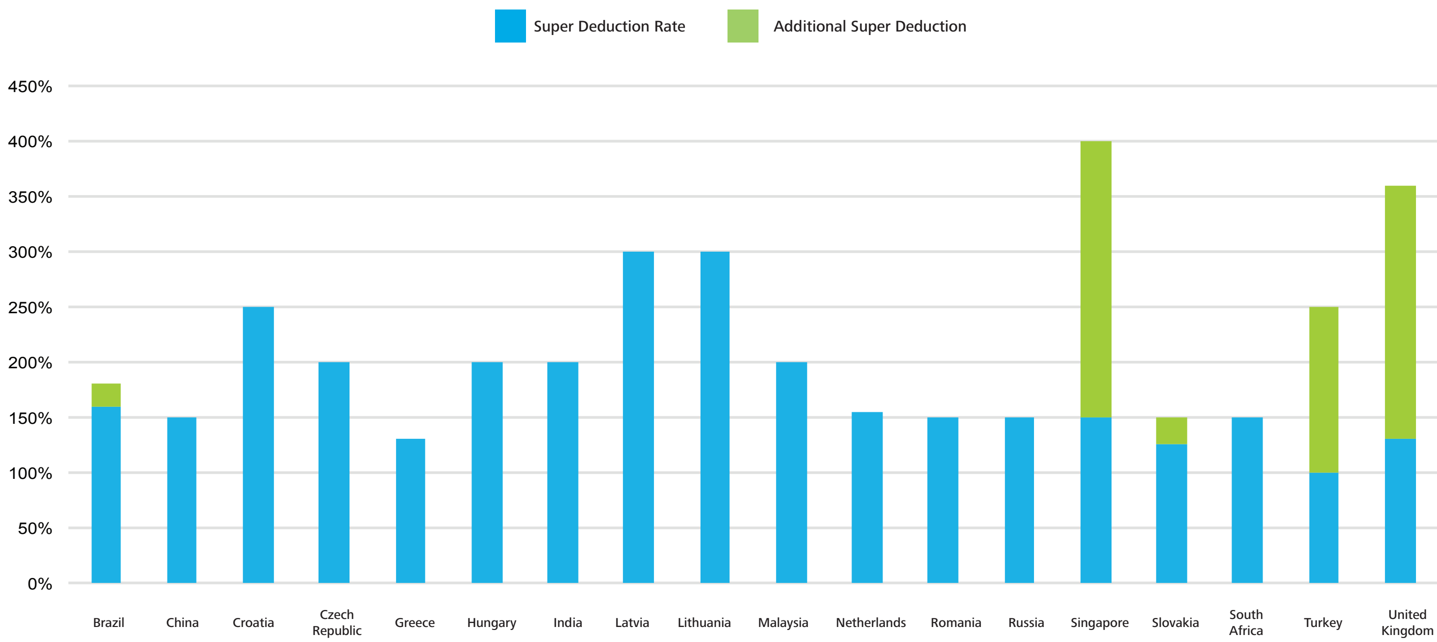
Treatment of Income and Expenses Related to IP

Country	Explanation
Austria	For income from royalty payments related to self-developed IP that is covered by a registered patent, or capital gains from the sale of such self-developed IP, the tax rate is reduced by 50% for individual taxpayers.
Belgium	Taxpayers can deduct 80% of qualifying IP income from taxable income, resulting in a 6.8% maximum effective tax rate.
Brazil	An extra 20% deduction is for IP-related development expenses, but only if a patent is registered.
China	Taxpayer granted HNTE status has a reduced 15% income tax rate. For qualified income from technology transfers, the first CNY 5M is exempt from EIT, with the amount exceeding CNY 5M is taxed at 50% reduced EIT rate.
France	Income from licensing or the sale of patents or patentable technology is taxed at a reduced rate of 17%, provided the technology was owned by the French company for at least two years; the sale of the technology to related parties is excluded from the benefit of the 17% rate. For the French licensee, the royalty fee is deductible at the standard corporate income tax rate (unless the licensee does not effectively exploit the IP rights).
Greece	The income attributable to an international tax patent is tax free for the first three years of the utilization of the patent. The profits will be treated as non-taxed reserve, which will be taxed accordingly upon use.
Hungary	50% of the gross royalty from IP (up to 50% of pretax profit) may be deducted from the corporate income tax base. Gains derived from the sale/transfer of qualifying IP are tax exempt.
Italy	A patent box will provide a 50% tax exemption that will be phased-in over a three-year period: (i) a 30% exemption for FY2015; (ii) a 40% exemption for FY2016; and (iii) a 50% for FY2017. The patent box will apply to the corporate and local tax on productive activities tax bases.
Netherlands	Qualifying income (net of development costs) allocated to the innovation box is taxed at a reduced rate of 5%.
South Korea	If a SME purchases or transfers certain IP (prescribed in the tax law) from a Korean third-party resident, the SME is entitled to claim a tax credit in the amount of 7% of the purchase price. If an SME transfers or leases such IP to a Korean third-party resident, the SME is entitled to a tax exemption in the amount of 50% of the corporate income tax on capital gains resulting from the transfer, or 25% of the corporate income tax on rental income, respectively.
Spain	60% of IP related income is exempt from taxable income.
Turkey	Income earned from software development and other R&D activities in a TDZ is exempt from income and corporate tax until 31 December 2023. Wages of researchers, R&D workers and software workers in a TDZ are exempt from income tax. Income from technology services is exempt from VAT for the same period.
United Kingdom	A proportion of income generated from patents may be taxed at a reduced rate of 10% under the patent box regime effective on income earned from 1 April 2013.

Countries Offering Research Grants Only

Country	Explanation
Germany	Nonrepayable cash grants for research projects are awarded on a “per project” basis, usually for collaborative projects.
Mexico	Cash grants are 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); and 3) Technological Innovation to Enhance Competitiveness for Technological Research, Development, and Innovation (INNOVATEC).

Jurisdictions Offering Super Deductions



Deloitte R&D Leaders Globally

Country	Contact	Email	Phone Number
Global Leader R&DGI	Natan Aronshtam	naronshtam@deloitte.ca	+416 643 8701
Australia	Jason Dunnachie	jdunnachie@deloitte.com.au	+612 9322 3678
Austria	Herbert Kovar	hkovar@deloitte.at	+431 53700 3600
Belgium	Patrick Brauns	pbrauns@deloitte.com	+322 600 6662
Brazil	Flavia Crosara	flaviacrosara@deloitte.com	+551 93707 3124
Canada	Albert De Luca	ADeLuca@deloitte.ca	+514 393 5322
China	Finny Fei Cao	fcao@deloitte.com.cn	+861 08520 7525
Croatia	Sonja Ifkovic	sifkovic@deloittece.com	+385 1235 1915
Czech Republic	Ludek Hanacek	lhanacek@deloittece.com	+420 246 042 108
France	Thomas Perrin	tperrin@taj.fr	+331 55 61 69 48
Germany	Thomas Northoff	tnorthoff@deloitte.de	+49 89 2903 68566
Greece	Stylianos Sbyrakis	ssbyrakis@deloitte.gr	+30 210 678 1100
Hungary	Csaba Markus	csmarkus@deloittece.com	+36 1 428 6793
India	Sujit Parakh	sujitparakh@deloitte.com	+91 12 4679 2210
Ireland	Declan Butler	debutler@deloitte.ie	+353 1 417 2822
Israel	Nadav Gil	ngil@deloitte.co.il	+972 3 608 5378
Italy	Ranieri Villa	ravilla@sts.deloitte.it	+39 01 0531 7831
Japan	Mark Brandon	mark.brandon@tohmatsu.co.jp	+81 80 3410 4584
Latvia	Ivo Rubins	irubins@deloittece.com	+371 6707 4179
Lithuania	Kristine Jarve	kjarve@deloittece.com	+371 67 074 112

Deloitte R&D Leaders Globally (cont.)

Country	Contact	Email	Phone Number
Malaysia	Daniel Lim	daniellim@deloitte.com	+60 3 7610 8845
Mexico	Fernando Silis	fesilis@deloittemx.com	+52 55 5080 6970
Netherlands	Helene Geijtenbeek	HGeijtenbeek@deloitte.nl	+31 88 288 8962
Poland	Magdalena Burnat-Mikosz	mburnatmikosz@deloittece.com	+48 22 511 00 65
Portugal	Sergio Oliveira	seoliveira@deloitte.pt	+351 210427527
Romania	Dan Badin	dbadin@deloittece.com	+40 21 2075 392
Russia	Vasily Markov	vmarkov@deloitte.ru	+7 812 703 7106
Singapore	Tiong Heng Lee	thlee@deloitte.com	+65 6216 3262
Singapore	Daniel Ho	danho@deloitte.com	+65 6216 3189
Slovakia	Martin Rybar	mrybar@deloittece.com	+421 2 582 49 113
South Africa	Newton Cockcroft	ncockcroft@deloitte.co.za	+27 11 806 5298
South Korea	Jee Won Kwon	jekwon@deloitte.com	+82 2 6676 2416
Spain	Cayetano Olmos	colmos@deloitte.es	+34 932 304 867
Turkey	Burak Inam	binam@deloitte.com	+90 312 295 4768
United Kingdom	David Cobb	dcobb@deloitte.co.uk	+44 20 7007 2996
United States	Mick Kane	mkane@deloitte.com	+312 486 9906