



New classification criteria for scientific and technological research (R&D) expenditure

New joint ministerial decision 109343/12/29.06.2017
(Gazette 2351/B/11.07.2017)

The modernization of the eligibility criteria for research and development (R&D) expenditure is an important step towards converging Greek tax rules with international standards. A new joint ministerial decision issued on 29 June 2017 (and published in the official gazette on 11 July 2017) replaces the decision that has applied since 1987, generally incorporating the OECD guidelines (Frascati manual). The new R&D classification criteria align the Greek tax legislation with other EU jurisdictions, enabling a common R&D classification approach for tax super deduction and thus eases the European perspective on the Common Consolidated Corporate Tax Base (CCCTB).

The updated definitions and broadened criteria for eligible R&D expenditure apply as from fiscal year 2017.

Qualifying taxpayers in Greece are granted a 130% super deduction for eligible expenses incurred in scientific and technological research (R&D) activities. Since the incentive is available to all entities in Greece, it is not considered state aid, but rather a general tax measure that is granted without limitations on the basis of nondiscriminatory criteria. As a result, the definitions and rules of the "General Block Exemption Regulation (GBER) 651/2014" and the "Framework for State aid for research and development and innovation (2014/C 198/01)" do not apply.

Definition of R&D

Which activities are considered R&D?

Scientific and technological research (R&D) activities comprise of creative and systematic work undertaken in order to **increase the stock of knowledge** and to **devise new applications** of available knowledge.

Scientific and technological research is divided into three types of activity:

- Basic research;
- Applied research; and
- Experimental development.

Scope and Boundaries of R&D

What is the criteria for classifying an activity as R&D?

The major criterion for classifying an activity as R&D is the presence of a significant degree of novelty, as well as the elimination of any scientific and/or technological uncertainty that existed at the outset of the activity.

The criteria for identifying R&D activities primarily include, but are not limited to, the following:

Scope & Boundaries	Exclusions
Design, construction of one or more prototypes and associated tests	Construction of a series of prototypes for the satisfaction of other needs, resulting from the successful testing of the original prototype
Construction and operation of pilot projects in experimental phases to gain experience; to combine construction studies and other data for the development of specification on new products; the design of special equipment and structures; and the preparation of operating instructions, procedure manuals and methods.	
Industrial design if it is necessary for the implementation of R&D activities	Design related to production procedures
Industrial engineering if additional research is necessary for its successful implementation	
Development of prototypes and innovative software if it embodies significant scientific or technological advances that result in an increase in the stock of knowledge: <ul style="list-style-type: none">• Development of information technologies at the level of operating systems, algorithms, operating languages, data management, communications software, software development tools	The following software development activities are excluded: <ul style="list-style-type: none">• Activities using known methods and existing software tools for the development of business applications and software systems• Upgrades, additions or changes in existing programs or systems• Support for existing systems

<ul style="list-style-type: none"> Development of internet technologies Research on methods for software design, development, operation or maintenance Development of software tools or information technologies in special ICT areas, such as image processing, geographic data presentation, character recognition, artificial intelligence, etc. 	<ul style="list-style-type: none"> Conversion or adaptation of programming languages or other development tools/libraries Adaptation of existing programs and functional additions for application users Tracking and removal of errors in existing applications
Clinical trials (studies) of phases 1, 2 and 3 for new drugs, vaccines and treatments. Phase 4 clinical trials that continue testing the drug or treatment after approval and manufacture should be treated as R&D only if they bring about a further scientific or technological advance. Phases 1, 2, 3 and 4 trials are treated as R&D only if they are carried out according to provisions in Greek law	

R&D expenditure

Which expenditure is considered R&D expenditure?

Only the following direct and indirect costs related to R&D activities can be classified as R&D expenditure:

- Buildings / Infrastructure:** The tax depreciation costs related to the purchase, construction or repair, maintenance, or restoration of buildings that are allocated and related exclusively to R&D activities.
- Equipment / Instruments:** The tax depreciation costs related to the purchase of equipment and laboratory instruments to the extent and for the period used for the project, such as devices, tools, scientific instruments, machinery installations and components of laboratory or semi-industrial scale and semi-industrial (demonstrative) testing facilities. This category may include any additional transportation and installation costs of the equipment, as well as user training costs.
- Operating expenses:** Current operating costs, such as rent or leasing costs, electricity, water, fixed and mobile line subscriptions, postal costs, etc. allocated and related exclusively to R&D activities.
- Personnel costs:** Wage costs for employed personnel at any level as long as they participate in the project (e.g. scientists, researchers, postgraduate students, technicians and other support staff).
- Transportation costs:** Costs for domestic and international travel for collaboration with laboratories, etc., announcement of results of a research project undertaken or under implementation, and participation in seminars, conferences and scientific meetings directly related to the R&D project.
- Consumables:** Costs for a wide range of consumable materials, such as chemical and microbiological reagents, micro components and instruments for single or limited uses.
- Software:** Costs for the purchase of licenses for specialized scientific software necessary for conducting research. However, common general use software that is not focused on the special computing needs of the specific project are not included.
- Patents:** Costs for patent development in Greece and abroad.
- Electronic data:** Costs for subscriptions to databases, national and international knowledge networks, electronic libraries or other electronic sources of specialized knowledge and information. A prerequisite for the eligibility of these costs is the exclusive relevance to the scope of the R&D project.

- **External researchers:** Assignment of specific parts of the research project to external researchers or other undertakings (private laboratories and enterprises, public research centers and laboratories, and educational institutions). The eligible expenditure for outsourced contractual research may not exceed 70% of the total project budget.

The following do not qualify as R&D costs and are excluded:

- Any remuneration that is related to shareholders, CEOs, member or the president of a board of directors, business partners, company administrators, general managers or business owners. In addition, remuneration paid to individuals that hold any of the above positions in related enterprises, and remuneration paid to individuals that held any of the above positions within the two fiscal years preceding the year in which the costs were incurred are excluded.
- Costs related to severance payments, bonuses and fringe benefits.

Obligations of enterprises and certification procedure

To obtain the incentives, qualifying enterprises that engage in R&D activities must obtain certification from the General Secretariat of Research and Technology (GSRT). Such enterprises must comply with the following:

- Not submit an application for certification for R&D activities for projects that are co-financed by any other body; *
- Maintain a separate ledger in their accounting records for the R&D expenditure;
- Keep a record of the enterprise's decisions relating to the implementation of the R&D activities, as well as the article 22^A certifications issued by the GSRT;
- The aforementioned enterprise's decisions shall provide the all of the following information:
 - Details of the nature and scope of the research project,
 - Detailed technical description of the project (work packages, methodology);
 - Description of the deliverables;
 - Time frame for implementation (Gantt chart);
 - Composition of the research team and their allocated work time;
 - Description of any new equipment and instruments needed for implementation of the project;
 - Description of any additional overhead and other expenses incurred directly as a result of the project; and
 - Budget per cost category and the total budget of the project.

Qualifying enterprises submit an application with the relevant R&D documentation to the GSRT. The type and content of the application, as well as the required documentation for the certification, is set on an annual basis via announcements published on the GSRT website (<http://www.gsrt.gr/>). Enterprises of any legal form may submit an application. The quality review regarding the nature of the project, the implementation and the results in accordance with the deliverables and the scope of the R&D project, as well as a financial audit procedure, is carried out by either by committees or independent experts assigned by the GSRT. The GSRT publishes the certifications for the eligible R&D expenditure and these are communicated to the taxpayer and the competent tax authorities.

* Requires further clarification

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- Proposal Preparation & Submission Services
- Project Management Services
- Long-Term Support Services
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You can read this alert on-line at:

<https://www2.deloitte.com/gr/en/pages/tax/articles/global-investment-and-innovation-incentives-tax.html>

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