Lithuania
Corporate R&D Report 2015
Welcome to the second edition of the Deloitte Research and Development (R&D) Survey for Lithuania, part of an annual R&D survey conducted by Deloitte across the Central European region.

We carry out this survey every year with the aim of measuring the sentiment of Lithuanian companies on the important issue of R&D and to provide an overview of what companies are looking for in order to increase their R&D expenditure. This report covers Lithuanian companies’ perception of the importance of R&D, how much they commit to R&D spending, key factors influencing any increases in their R&D spending in years to come, and their familiarity with and usage of R&D grants and tax incentives.

Our analysis of the survey results has indicated that Lithuanian companies have greater awareness with respect to the availability of R&D grants and incentives, especially tax incentives, compared with the previous year. However, issues remain in achieving higher rates of application of the available grants and incentives. This goal could be achieved by authorities taking more responsibility and informing those companies about the possibilities of receiving funding or tax relief for their progressive R&D activities.

It is encouraging that Lithuanian public organisations are taking charge and introducing new programmes aimed at increasing awareness around R&D incentives among companies. The newest programme, financed by the EU, provides training for employees of small and medium enterprises introducing them to the Frascati Manual standard of collecting data about R&D, assists them in recognising R&D-related costs and documenting them in filings and reports to the Lithuanian tax and statistics authorities.

I would like to take this opportunity to thank all the companies that gave their time in completing the questionnaire so that we could share the results of this survey. I trust you will find this report useful and inspiring.

Kristine Jarve
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Key findings:

• Lithuanian companies do not directly equate their future R&D expenditure to the availability of R&D cash grants and tax incentives

• A sharp increase in R&D expenditure could be expected when institutions with an adequate number of research personnel become more open to co-operating with businesses

• An overall positive sentiment is emerging for growth in R&D expenditure as a majority of companies expect to increase their short- and medium-term spending

• The most widely-known and used incentives among Lithuanian companies are those related to R&D tax incentives, employee training programmes, and projects in co-operation with research institutions

• A shortage of available information and risk management issues are the two main reasons for a low rate of application for R&D incentives

• Respondents report increased awareness of R&D-related grants and incentives, especially tax incentives – however, additional action from private and public institutions is needed to boost awareness further
Deloitte’s 2015 Corporate R&D Survey reveals that Lithuanian companies, contrary to the common view, do not directly equate their future R&D spending to the availability of R&D cash grants and tax incentives. On the contrary, the survey suggests that the key factors in determining R&D spending over the short term (1-2 years) are related to the availability of skilled and experienced people, which is markedly different from the trends identified in other Central European countries participating in the survey. Moreover, companies also strongly relate their R&D spending to the availability of access to universities and research institutions. Meanwhile, the availability of more types of grants and incentives is only the third most important factor taken into account by Lithuanian companies when making decisions about whether to engage in R&D activities.

Supporting this view, those Lithuanian companies that are actively engaged in R&D activities tend to work closely with external institutions that have adequate development resources, such as universities and public and private research centres. According to respondents, for certain programmes co-operation with such institutions is the only possible way to receive funding for these research projects. This may help explain the high level of dependence on external R&D personnel.

An overall environment of increasing R&D expenditure appears to be taking shape as a majority of companies in Lithuania, as well as across the Central European region, report they expect to increase their spending in both the short (1-2 years) and medium (3-5 years) terms.

In the survey we observed a comparably higher level of awareness of participating companies about the availability of R&D tax incentives and grants – a significant proportion of companies report they are familiar with R&D tax incentives and other available R&D- and innovation-related grants.

It then follows that the most widely known and implemented incentives by Lithuanian companies are R&D tax incentives, as well as those programmes related to employee training and projects undertaken together with research institutions. The main factor responsible for the low rate of application for other R&D incentives is a lack of information on important factors like availability, eligibility and risk management issues.

However, despite the encouraging results in relation to increased awareness about available R&D-related grants and incentives, respondents indicated that private and especially public institutions could further improve access to information. In cases where information on R&D grants and incentives is available, there are not always adequate guidelines or consultation mechanisms in place to assist companies in actually receiving the available relief. An increase in providers of private consulting services on R&D qualification could therefore be anticipated in the coming years in relation to the expected high level of demand relating to companies’ expectations to increase R&D expenditure in the short and medium terms.
Treatment of R&D activities in Lithuanian companies

Lithuanian companies generally treat their R&D activities in a fairly straightforward manner, as described in the Frascati Manual 2002 and the Law on Corporate Income Tax of the Republic of Lithuania: they ascribe their R&D activities to the development of new products, processes and services or characterise their R&D activities as improvements to existing products, processes or services. However, activities like collaboration with other organisations during scientific projects or developing innovations for various markets are not necessarily recognised as being R&D activities by Lithuanian companies.

According to the results of the survey, in spite of a relatively strong agreement on the definition of R&D activities, Lithuanian companies differ on which protection measures they use to protect the results of their R&D projects. A majority of respondents use several measures to protect their R&D intellectual property and know-how arising from innovation activities. The most common protection measure is the organisation’s secrecy policy (86%), which may be a result of the fact that most R&D outcomes are achieved at a level not requiring legal registration. Nearly a half of respondents (48%) applied trademarks as a measure of protection, nearly equal in number to those companies that used copyrights. Meanwhile, patents and industrial design were used by less than a third of respondents (below 30%).

It should be noted that there is a significant increase in awareness around the importance of protecting the results of R&D activities compared to last year’s survey. Last year, 25% of companies claimed they did not use any measure, while only 3% reported they held this view now.

R&D expenditure

The largest proportion of respondents (38%) reported that they have re-invested more than 10% of their annual revenue towards R&D activities. Together with those companies which invested more than 5% of their revenue into R&D (21%), these companies constitute roughly 59% of total respondents – just a shade below last year’s mark of 63%.

On the other hand, 24% of respondents claimed to re-invest less than 1% of their revenue towards innovative activities, including around 7% which did not invest into R&D at all.

With respect to the outlook for the future, the general trend appears very favorable. Similar to last year, only 14% of respondents expect to decrease their investment into R&D over the next 1-2 years compared to the level in 2014, whereas this number gets reduced to a mere 3% over the next 3-5 years. Significantly more companies are bullish towards R&D expenditure and plan to increase their invest over the medium-term (80%) compared to the short-term (37%). It is likely that the results correlate with the general outlook for the economy.

Lithuanian companies reported that the most important external factors influencing future R&D spending are access to and communication with universities and research institutes, the availability of skilled and experienced researchers, as well as availability of more types of benefits, such as tax grants and incentives. Very similar results were noted in the previous year’s survey, where, contrary to the consensus view of companies in other Central European countries, Lithuanian respondents indicated that access to education institutions and the availability of researchers were the main factors stimulating further R&D activities.

Meanwhile, Lithuanian companies do not consider the stability of the regulatory environment, access to R&D sectorial benchmarks or protection of Intellectual Property rights, and co-financing of related costs to be factors of high significance, according to the survey.
Figure 1. Plans of the companies towards R&D spending in the mid-term and long term

- Lower compared to 2014: 7% in 1-2 following years, 0% in 3-5 following years
- Approximately the same as in 2014: 50% in 1-2 following years, 17% in 3-5 following years
- Higher than in 2014: 37% in 1-2 following years, 80% in 3-5 following years
- We do not plan R&D spending: 7% in 1-2 following years, 3% in 3-5 following years

Figure 2. Factors influencing the R&D spending of the companies in the next 1-2 years

- Other factors: 0.89%
- Access to the R&D sectorial and competitors’ benchmarks: 1.54%
- Costs of researchers: 2.07%
- Availability of skilled and experienced researchers: 2.36%
- Access to and cooperation with universities / research institutes: 2.14%
- Protection of intellectual property rights: 1.54%
- Possibility of co-financing costs of IP protection procedures, including costs of protection maintenance period: 1.46%
- More R&D tax incentives compared to R&D cash grants: 1.64%
- More R&D cash grants as compared to R&D tax incentives: 2.11%
- Availability of more types of benefits (cash grant, tax allowance, etc.): 2.29%
- Stability of the regulatory environment: 1.63%

We do not plan R&D spending
Stability of the regulatory environment
Other programs
Programs financing training of employees
Invest LT programs
Program "Horizon 2020"
Incentive for commercialization of R&D results
Projects implemented together with science institutions
Incentive for FEZ companies
Incentive for investment projects
Incentive for R&D
Availability of more types of benefits (cash grant, tax allowance, etc.)
More R&D cash grants as compared to R&D tax incentives
More R&D tax incentives compared to R&D cash grants
Protection of intellectual property rights
Possibility of co-financing costs of IP protection procedures, including costs of protection maintenance period
Access to and cooperation with universities / research institutes
Availability of skilled and experienced researchers
Costs of researchers
Access to the R&D sectorial and competitors’ benchmarks
Other factors
Approximately the same as in 2014
Higher than in 2014
Lower compared to 2014
We do not plan R&D spending
It appears that human capital, along with an influx of knowledge and ideas, are seen as the decisive elements in fuelling R&D investments. This is why Lithuanian companies collaborate actively on R&D projects with a range of public and private sector organisations that have access to appropriate personnel and technology.

This trend is confirmed by the results of the survey: a large majority of the companies that carried out R&D activities (roughly 86%) did so in co-operation with third parties. Those organisations, such as universities or research centres, do not solely provide the required researchers, premises and equipment – they may also be able to offer much-needed insights during the project development process. Such assistance from universities and research centres is likely to remain one of the key supporting pillars for companies engaged in R&D activities in the future.

**Grants and tax incentives**

R&D tax incentive has been available for companies in Lithuania since 2008 – however, companies indicated in the survey that this tax incentive is not very well known. The results of the survey conducted in 2015 show higher level of companies’ familiarity with the R&D tax incentives.

Looking at the awareness of the various forms of state support to R&D, 32% of respondents knew about R&D tax incentives more than about other R&D grants and incentives. Other support programmes with high awareness among respondents included Horizon 2020 (25%) and projects implemented together with research institutions under the programmes of fostering of partnership between business and science (14%).

**Figure 3. Usage and familiarity of R&D grants and incentive**

- Incentive for R&D: 32% usage, 35% familiarity
- Incentive for investment projects: 7% usage, 15% familiarity
- Incentive for FEZ companies: 4% usage, 4% familiarity
- Projects implemented together with science institutions: 8% usage, 14% familiarity
- Incentive for commercialization of R&D results: 0% usage, 4% familiarity
- Program "Horizon 2020": 4% usage, 25% familiarity
- Invest LT programs: 7% usage, 0% familiarity
- Programs financing training of employees: 7% usage, 15% familiarity
- Other programs: 4% usage, 15% familiarity

- Familiarity with grants and incentives
- Usage of grants and incentives
In terms of the actual use of these incentives, a greater share of respondents (35%) favored R&D tax incentives compared to the other options. Specific tax incentives utilised included programmes financing the training of employees (15%) and the investment projects incentive (15%). Other options were not chosen by companies despite their being aware of them. One such example is Horizon 2020, which aims to finance all parts of the innovation chain from the EU structural funds – 25% of respondents were aware of it but only 4% have actually used it.

Around a third of the companies (35%) that are not using the R&D incentives are not doing so due to the fact that they are not familiar with the available incentives. This finding ought to encourage governmental institutions and private consulting firms to inform companies more extensively about the available incentives and potential savings they can generate. Nearly a half of the companies that know about the R&D grants and incentives (42%) do not actually apply for them, as the application process requires substantial resources and expertise or due to the fact that it would require the involvement of partners in a consortium, something the nature of the respondents’ business activities would not allow.

The same obstacle arises when it comes to applications for the R&D tax incentives. Respondents reported significant doubts about which activity could be classified as R&D and how to prove that its activities are R&D (28%) or are uncertain about the approach of the tax authorities with respect to R&D costs (28%), whereas tax regulations are not very clear and as a result constitute a risk. Companies should therefore be brought up to speed on how to apply the respective R&D initiatives by public institutions or private firms. It should be recognised that this would be beneficial for companies as well as for the broader Lithuanian economy with respect to a possible increase of foreign investment.

Figure 4. The most serious problem in regards of current system of R&D support as considered by the companies

- Identifying the activities that meet the R&D requirements
- Keeping track of costs separately
- Unclear guidelines on the conditions of the eligibility of the costs and their calculation
- Lack of tax clarity in the assessment of subsidies or tax deductions by tax or other authorities
As mentioned earlier, Lithuanian companies rarely undertake R&D activities on their own. The results of the survey support the notion that universities and public and private research centres are important components of R&D projects’ value chain, as they are able to provide much-needed external personnel, expertise and equipment for companies conducting R&D activities, regardless of the sector in which the company operates.

It should be noted that a significant proportion of respondents that were co-operating with third parties on R&D projects (75%) indicated that such joint work was a necessary factor for the performance of the respective projects. In some cases co-operation with third parties might be a requirement set by local authorities overseeing the public tenders for certain types of R&D activities – and without such co-operation, companies could not get an access to funding or receive significantly lower amounts of available financing. Responses to this part of the survey may also raise questions about the scale and quality of companies’ internal R&D capabilities.

R&D qualification procedure
According to the Law on Corporate Income Tax of the Republic of Lithuania, entities carrying out R&D activities are entitled to the super deduction (300%) of expenses incurred in these projects for the tax period during which they were incurred. The list of eligible groups of costs is established in Order No. 1183 of the Government of Lithuania, dated 19 November 2008.

Companies are able to apply this deduction without any confirmation by the tax authorities. However, the tax authorities may challenge the treatment of an activity as R&D during a tax audit or a tax investigation. As a result, they may calculate a new amount of deductible expenses as well as an additional tax. Penalties and late interest payments may also be imposed. The obligation to prove that the activities of the company meet the criteria of an R&D project, and that the incurred expenses are therefore eligible for super deduction, falls on the individual company.

In order to demonstrate eligibility for the R&D tax incentive, the applying company is obliged to prepare written R&D project documentation, approved by a director of the company or another authorised person. This must include information on various aspects of the project, such as a description of its objectives and processes, an indication of the innovative elements and technological uncertainties related to the work, and a precise definition of the expenses incurred.

In relation to issues arising from the treatment of expenses as R&D costs, any debatable questions could be analysed by experts from the Agency for Science, Innovation and Technology (SITA) at the request of the tax authorities or a company applying the incentive. If companies are not certain whether or not their activities may be treated as R&D, they can apply to SITA with the inquiry, providing full documentation, including the objectives of the project, the employees working on it, the stages it comprises and its results. Detailed directions on how to apply are provided in Order No. 2V-72 by the Head of SITA dated 16 July 2012.

Despite the above, it should be noted that there is substantial room for improvement in the application process for R&D incentives, including tax incentives, both for business entities and public/governmental institutions.
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