Lithuania
Corporate R&D Report 2016
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Welcome to the third 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 have focused on a couple of key objectives this year. Firstly, we aim at measuring the sentiment of Lithuanian companies on the important issue of R&D. Secondly, we seek to give an opportunity for Lithuanian companies to compare their R&D efforts locally and regionally. Finally, we highlight an existing problem – a lack of R&D tax incentive awareness – and encourage public and private sectors to unite their efforts for more intensive information spread on R&D Tax incentives.

Investment in R&D is a significant pillar for long-term economic growth. Moreover, it is encouraging that a number of Lithuanian enterprises are investing in R&D projects and activities by greater amounts. The average annual increase in spending on R&D has reached 8%. Overall, research and development activities in Lithuania are making a positive impact not only at the micro but also at the macro level.

I would like to take this opportunity and thank all the companies that gave their time in completing the questionnaire and sharing their sentiments with us. I believe the results of this survey will be an interesting source of information and valuable insights for positive alterations in the R&D sector.

Kristine Jarve
Tax Partner
Deloitte Lithuania
About R&D Survey in Lithuania

Deloitte’s 2016 Corporate R&D Report presents results provided by 41 surveyed companies employing from 1 to 1100 employees and operating in IT, media, manufacturing, engineering, natural sciences, energy and other sectors in Lithuania. The following overview includes companies’ usage and familiarity with R&D grants and incentives, also evaluation of external factors and more.
Country profile

Before taking a closer look at the results of Deloitte’s 2016 Corporate R&D Survey, it would be interesting to assess the macroeconomic state of Lithuania and key figures related to R&D as it describes the context, in which the Lithuanian entities operate.

Based on the data provided by the World Bank, GDP of Lithuania, which is commonly referred to as the main indicator of economic performance of a country, has been consistently growing ever since the post-crisis period averaging 2.9% per year. The last few years it has been the highest compared with other Baltic States.

Lithuania is looking more and more attractive to foreign investors. Due to various projects promoting investment possibilities and general awareness of Lithuania, the amount of foreign direct investment is increasing each year. From the year 2012 to 2015 the amount invested during a single year increased by 1.1 billion euros and reached 13.2 billion euros in year 2015.

As a result of both, the number of operating firms in Lithuania has been growing with the most significant increase in year 2015, with more than 8,000 new enterprises established and the total number reaching nearly 77,000.

Noticeably, due to the fast pace of technological improvements and the necessity to employ them in order to keep up with the competition, a number of firms are starting to invest in R&D projects and activities by greater amounts. Various grants and tax incentives have also influenced this trend.

An average annual increase in spending on R&D reached 11% in years 2013-2014, and accordingly, there is a strong demand for highly qualified labour in the Lithuanian market. A major increase in the numbers of employees working on projects and involved in activities related to R&D has been observed in recent years. The number of employees involved in R&D is growing at the significantly fast pace of 24% a year on average (based on the data for years 2013-2014).

To sum up, in Lithuania research and development activities are making a positive impact not only at the micro but also at the macro level. Such trends are expected to continue in forthcoming periods.
R&D expenditure
The respondents were asked what percentage of their companies’ turnover was spent on R&D activities in 2015. A majority of the respondents (76%) were engaged in R&D activities significantly during the previous year and spent more than 1% of their annual turnover to finance R&D activities. Over one fifth of firms have spent above 10% and another 17% — between 5% and 10% of their turnover.

However, as it can be seen from the graph below, 17% of the companies did not have any R&D expenditure at all. Mostly it was due to the absence of R&D activities in general, others did not have separate accounting records for these costs.

Regarding future investments, almost half of the questioned companies are planning to have similar or higher investments in R&D during the upcoming 1-2 years. The proportion of companies that intend to increase their R&D expenditure from year 2015 until 2018-2020 is growing.

However, there are still several companies (up to 2%), which plan to spend a smaller proportion of their turnover on R&D activities in 1-2 and 3-5 years ahead compared to year 2015.

Also, the representatives of the companies declared, what IP protection means they used to implement in practice. Based on the results of the R&D survey, most of the companies apply a company secrets policy. Also, patents, trademark and copyright were used quite often in 2015. The less popular means of protection was industrial design.

Companies’ investments on R&D activities in 2015

- Above 10%
- Between 5% and 10%
- Between 3% and 5%
- Between 1% and 3%
- Less than 1%
- None

- Do not have any R&D activities
- Do not have separate accounting records for R&D costs

Plans of the companies towards R&D spending in the mid-term and long term

- Lower compared to 2015
- Approximately the same as in 2015
- Higher than in 2015
- Do not plan any R&D spending

- In the upcoming 1-2 years
- In the upcoming 3-5 years
Key external factors

The respondents were also asked to evaluate the importance of external factors, influencing R&D spending in a scale of 0 to 5 (with 5 being the most influential).

Based on the results of the survey, the companies consider the ability to hire skilled and experienced professionals to be the most important criteria for performing R&D activities. Therefore, cooperation with universities and relevant research institutions is also among external factors, which have a relatively high influence on R&D spending.

32 of 41 surveyed companies are already cooperating with third parties when carrying out R&D activities. Most of them do so because of the need to conduct research projects, others declared that including third parties is required by them in order to receive a higher cash grant.

In addition, the availability of more types of benefits remains one of key incentives to invest, as it was in 2015.

Besides factors presented below, the respondents mentioned, that willingness to invest in R&D also depends on the financial state of the company.

Factors influencing the R&D spending of the companies

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of skilled and experienced researchers</td>
<td>4.02</td>
</tr>
<tr>
<td>Availability of more types of benefits (cash grant, tax allowance, etc.)</td>
<td>3.54</td>
</tr>
<tr>
<td>Access to and cooperation with universities/research institutes</td>
<td>3.41</td>
</tr>
<tr>
<td>More R&amp;D cash grants as compared to R&amp;D tax incentives</td>
<td>3.29</td>
</tr>
<tr>
<td>Lower costs of researchers</td>
<td>3.27</td>
</tr>
<tr>
<td>Stability and transparency of the regulatory environment/state administration</td>
<td>3.17</td>
</tr>
<tr>
<td>Possibility of co-financing costs of IP protection procedures, including costs of protection maintenance period</td>
<td>3.15</td>
</tr>
<tr>
<td>Effective management of IPR resulting from R&amp;D activities</td>
<td>3.05</td>
</tr>
<tr>
<td>Access to the R&amp;D sectorial and competitors’ benchmarks</td>
<td>2.73</td>
</tr>
<tr>
<td>Other factors</td>
<td>1.37</td>
</tr>
</tbody>
</table>
Familiarity and usage

The survey revealed that half of the companies which are aware of R&D tax incentive have already applied the incentive and reduced their taxable profits. However, the other half find it difficult to understand the authorities’ approach with respect to R&D costs.

Despite the fact that R&D tax incentive has been available for 8 years already, there are still 12% of respondents who are not familiar with it at all. Compared with the previous year, companies have more knowledge about R&D incentive available in Lithuania; however, public institutions, such as Agency for Science, Innovation and Technology, should further invest into raising the awareness.

It appears that one of the most common reasons for not using the incentive is uncertainty in relation to tax authorities approach with respect to R&D costs:

• 29% of the respondents stated that there is a lack of tax clarity in the assessment of subsidies or tax deductions by tax or other authorities;
• 22% think that guidelines on the conditions of the eligibility of the costs and their calculation are unclear;
• 22% of companies stated that they often find it difficult to identify the activities that meet the R&D requirements for requesting a subsidy or a tax deduction.

Similar results were obtained regarding EU R&D grants. Statistics show that as many as half of the respondents are fully familiar with R&D grants and have already taken advantage of the opportunity to receive money from EU funds and have invested in research and development projects.

The survey helped to identify two main reasons for not using the funds. 39% of the stated that their companies have insufficient capabilities to monitor such opportunities. Also, the lack of financial resources is seen as another barrier to use the grants (12%).

Usage and familiarity of R&D grants and incentives

<table>
<thead>
<tr>
<th>Usage and familiarity</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Familiar with the R&amp;D tax incentives and use them</td>
<td>40%</td>
</tr>
<tr>
<td>Familiar with the R&amp;D tax incentives, but do not use them</td>
<td>31%</td>
</tr>
<tr>
<td>Not familiar with the R&amp;D tax incentives</td>
<td>29%</td>
</tr>
<tr>
<td>Familiar with the R&amp;D grants and use them</td>
<td>41%</td>
</tr>
<tr>
<td>Familiar with the R&amp;D grants but do not use them</td>
<td>39%</td>
</tr>
<tr>
<td>Not familiar with the R&amp;D grants</td>
<td>20%</td>
</tr>
</tbody>
</table>
The respondents also identified specific grants and incentives they use and are familiar with (see the graph on the right).

According to the results, the most common and most often used, is the tax incentive for scientific research and experimental development.

Also, businesses are relatively aware of available programs that encourage partnership between businesses. They are also familiar with programs that help to finance trainings for employees; however, only 32% of surveyed companies have applied this.

Horizon 2020 can be identified as another popular grant program. 29% of the surveyed companies have already received financial support for the execution of R&D projects under the European structural funds’ measures for the period 2014-2020.

In general, the profile of programs mentioned in this report should be raised by public institutions and private consulting firms in order to broaden the aims of companies and better inform them about the possibilities available.
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