Global Tax and Legal | April 2016

Grants & Incentives program updates

The latest legislative developments from around the world

Countries included

This update provides a summary of the latest developments affecting Grants & Incentives and Research & Development programs. For more information, please contact the local partner of the respective program directly.

Brazil

Germany

India

Latvia

Poland

Portugal

South Africa

United Kingdom

United States

For more information

Brazil

Brazil–Grants & Incentives program update

Provisional Measure 694/2015, published on 30 September 2015, proposed the suspension of R&D incentives for calendar year 2016. To be converted into law, the PM had to be approved by the senate by 8 March 2016, but the deadline expired without approval. Therefore, the PM has been cancelled and suspended, and the R&D tax incentives remain available for 2016.

Scheme budget	Tax incentive
Type of incentive	Income tax return
Deadline	N/A
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Germany–e-mobility

Funding scheme e-mobility: electric vehicles and charging infrastructure

This funding scheme supports the purchase of new electric vehicles, including electric buses and utility vehicles, especially for communities and municipalities. At least three new electric passenger cars must be included in each application.

The charging infrastructure needed to operate these vehicles can be funded as long as it is publicly accessible.

Scheme budget	• No overall budget published • For cities, municipalities, counties, functional organizations, municipal and federal authorities, funding will be disbursed for the additional investment costs of electric vehicles (compared to fuel-based vehicles) and charging infrastructure • Funding will cover only up to 40% of the costs of electric vehicles over and above the costs of an equivalent fuel-based vehicle • Companies can obtain grants of up to 40 % of eligible costs but only if their investment is part of a municipal e-mobility concept
Type of incentive	Non-repayable cash grant
Deadline	Submission of project outline: 6 June 2016
Contact name	Isabel Antholz: Senior Manager or Teresa Stahl: Consultant
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Germany–Healthcare/Material

Material innovations for a healthy lifestyle: proMatLife-polymers

The scheme focuses on conventional and new polymers that provide a significant improvement in, or allow for an expansion of, the scope of an application in pharmaceutical and medical technology. For example, the improvements can relate to:

- Medically relevant material properties, such as immune tolerance, bio-compatibility or long-term stability
- Individualization and personalization of medical products
- Mechanical stability against abrasion, tension and pressure
- Metal ions, metal sulphur and metal oxygen batteries

Scheme budget	• No overall budget published • Forming of an industry-led consortium is required; inclusion of SMEs is welcome • For companies, grants of up to 50% of eligible costs can be awarded, provided there is an own contribution of at least 50% • For universities and research institutions, grants of up to 100% of eligible costs can be awarded • Funding period of up to three years
Type of incentive	Non-repayable cash grant to a consortium
Deadline	Submission of project outline: 28 October 2016
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Germany–electronic systems/e-mobility

SME-Innovative: electronic systems and e-mobility

This funding scheme promotes SME-led R&D projects in the areas of "electronic systems" and "e-mobility"

- Electronic systems: Projects must be related to one of the following fields of development: mechanical engineering, automation technology, electrical and ICT industry, medical technology or automotive industry, including automated driving
- E-mobility: Projects should aim to increase energy efficiency, functionality and/or reduce costs in one of the following areas: new electronic vehicle concepts, propulsion systems, electronic vehicle components and systems (including power electronics), or modular/functionally integrated components for e-mobility

Scheme budget	• No overall budget published • Funding for projects undertaken by SMEs or SME-led consortia with universities, research institutions or other companies (the SME must be the coordinator and main financial beneficiary) • Funding is available only for companies that do not have more than 1,000 employees and EUR 100million in annual revenue • For companies, grants of up to 50% of eligible costs can be awarded, provided there is an own contribution of at least 50%. • Funding period can be for up to three years
Type of incentive	Non-repayable cash grant
Deadline	Funding applications can be submitted throughout the year. Applications will be reviewed twice a year on 15 April and 15 October (for 2016).
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India

Changes proposed to super deduction on R&D

The 2016 budget announced on 29 February 2016 proposes to reduce the current 200% deduction for actual expenditure incurred on R&D to 150% as from financial year 2017–18, and to repeal the deduction entirely as from financial year 2020–21 so that only the actual expenditure incurred on R&D would be deductible. The President is expected to give assent to the proposal in May 2016.

Scheme budget	N/A
Type of incentive	R&D super deduction
Deadline	N/A
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India

Patent box proposed

The 2016 budget announced on 29 February 2016 includes a proposal to introduce a patent box regime in India. The proposed measures are believed to be in line with the OECD "nexus approach" recommendation in Action 5 of the BEPS initiative. The salient features of the proposed patent box, which will apply as from 1 April 2016 if approved by the President, are as follows:

- Royalty income of an Indian resident in respect of a patent developed and registered in India would be taxed at a rate of 10% (plus the applicable surcharge and cess) on a gross basis; and
- Royalty income on patents and corresponding expenses would be excluded when computing the minimum alternate tax.

Scheme budget	N/A
Type of incentive	Reduced rate of tax on royalty income
Deadline	N/A
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Latvia–telecommunications

Support for investment projects

As from 29 February 2016, data processing, hosting and related activities are eligible for a tax credit equal to 25% of the amount invested in fixed assets, including costs of servers, data center equipment and buildings. To qualify for the incentive, the investment must exceed EUR 10 million over a five-year period, and the Latvian government must approve the project in advance. A similar incentive applies to manufacturing industries.

The 25% credit must be offset against corporate income tax liabilities in the year in which the project is completed. If there is insufficient liability in that year, the excess may be carried forward for offset in the following 16 years.

Scheme budget	No limit, but the rate of the incentive is reduced to 15% for the part of costs exceeding EUR 50 million and to 11.9% for the costs exceeding EUR 100 million
Type of incentive	Corporate income tax incentive
Deadline	31 December 2020
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Poland–industrial R&D or development works

Projects that include industrial research and/or Development (Sub-measure 1.1.1 of the Smart Growth Operational Program)

Administered by the National Center for Research and Development, this program supports development activities carried out by enterprises as part of projects that include industrial R&D works or development works (projects that do not provide development work cannot obtain financing). To benefit, a project must fall within the scope of one of the R&D&I funding priorities in the "National Smart Specialization." Eligible costs include remuneration and outsourcing costs (up to 50% in the latter case), depreciation and leasing costs for R&D infrastructure and equipment, costs incurred on intangible assets, land and buildings (depreciation), other operating costs, and up to 17% of indirect costs. The enterprise must incur at least EUR 3 million in qualifying costs (large enterprises) and EUR 0.5 million (SMEs).

Scheme budget	EUR 232.5 million for large enterprises EUR 174.4 million for SMEs
Type of incentive	The grant available as a percentage of eligible costs is as follows: • *Industrial research:* Up to 70% for micro and small enterprises, 60% for medium-sized enterprises and 50% for large enterprises • *Experimental development:* Up to 45% for micro and small enterprises, 35% for medium-sized enterprises and 25% for large enterprises Where there is a broad dissemination of R&D results, aid is increased by an additional 15%, up to a maximum of 80%
Deadline	1 June 2016–11 July 2016 (large enterprises) 4 April 2016–29 July 2016 – divided into stages (SMEs)
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Poland–Textile industry

INNOTEXTILE (Measure 1.2 of the Smart Growth Operational Program)

Administered by the National Center for Research and Development, the program supports industrial research and experimental development or experimental development carried out by enterprises or a consortium of enterprises consisting of at least two entrepreneurs aimed at the textile industry.

To benefit, a project must fall within the scope of one of the R&D&I funding priorities in the "National Smart Specialization" (and must include R&D activities related to one of the following: development of new solutions for raw materials for the textile industry; development of new technologies limiting water, energy consumption and environmental pollution for the textile industry; development of composite product technology (based on polymer, fibres and textiles); development of multifunctional textiles and identification of new applications for these products; development and improvement of technologies and textronic materials; development and refining of solutions for the modern personalization and customization of products in the textile industry; and the development of tools to support production and sale processes in the textile industry.

Eligible costs include remuneration and outsourcing costs up to 60% (where the project is implemented independently) or 50% (where the project is implemented by a consortium), depreciation and leasing costs for R&D infrastructure and equipment, intangible assets, land and buildings, other operating costs, and up to 17% of indirect costs.

The value of eligible costs of the project must be between EUR 116,000 and EUR 4.66 million.

The project implementation period may not exceed three years.

Scheme budget	About EUR 14 million in the current call for proposals
Type of incentive	The grant available as a percentage of eligible costs is as follows: • *Industrial research:* Up to 70% for micro and small enterprises, 60% for medium-sized enterprises and 50% for large enterprises • *Experimental development:* Up to 45% for micro and small enterprises, 35% for medium-sized enterprises and 25% for large enterprises Where there is a broad dissemination of R&D results, aid is increased by an additional 15%, up to a maximum of 80%
Deadline	15 April 2016 – 15 June 2016
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Poland–steel sector

INNOSTAL (Measure 1.2 of the Smart Growth Operational Program)

Administered by the National Center for Research and Development, the program supports industrial research and experimental development or experimental development carried out by enterprises or a consortium of enterprises consisting of at least two entrepreneurs aimed at the steel industry.

To benefit, a project must fall within the scope of one of the R&D&I funding priorities in the "National Smart Specialization."

Eligible costs include remuneration and outsourcing costs up to 60% (where the project is implemented independently) or 50% (where the project is implemented by a consortium), depreciation and leasing costs for R&D infrastructure and equipment, costs incurred on intangible assets, land and buildings, other operating costs, and up to 17% of indirect costs. There is no information about a minimum or maximum value of eligible costs or project value.*

*Description based on general information about Measure 1.2 OP SG. Specific criteria (INNOSTAL) will be known after the announcement of the call for proposals.

Scheme budget	About EUR 28 million for the current call for proposals
Type of incentive	The grant available as a percentage of eligible costs is as follows: • *Industrial research:* Up to 70% for micro and small enterprises, 60% for medium-sized enterprises and 50% for large enterprises • *Experimental development:* Up to 45% for micro and small enterprises, 35% for medium-sized enterprises and 25% for large enterprises Where there is a broad dissemination of R&D results, aid is increased by an additional 15%, up to a maximum of 80%
Deadline	1 June 2016–15 September 2016
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Portugal

Incentives for the qualification and internationalisation of SMEs – projects for internationalisation

SMEs undertaking projects to increase their capacity and active presence in the global market can claim a cash grant of up to 45% on expenses related to the knowledge of markets, international development and promotion, presence in international markets and international marketing, amongst others.

Scheme budget	EUR 60.5 million
Type of incentive	Non-repayable cash grant of 45% to SMEs
Deadline	13 May 2016
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Portugal

Incentives for qualification and internationalization of SMEs

SMEs undertaking projects to increase their productivity, flexibility and response capacity in the global market can claim a cash grant of up to 45% on expenses incurred on information and communication technologies, the digital economy, brands and designs, the development of new products and services, quality, knowledge transfers, eco-innovation, distribution and logistics.

Scheme budget	EUR 47.5 million
Type of incentive	Non-repayable cash grant of 45% to SMEs
Deadline	13 May 2016
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South Africa

Black Industrialists Scheme (BIS)

The objective of the BIS is to accelerate the quantitative and qualitative increase and participation of black industrialists within South Africa and provide multiple access links to market. The BIS is a cost sharing grant ranging from 30% to 50% of qualifying costs, up to a maximum of ZAR 50 million per project. The amount of the grant depends on the level of black ownership and management, and the project's economic benefit and value.

The BIS offers support for capital investment costs, feasibility studies for a bankable business plan, post-investment support costs and business development services costs. An application must be submitted to the Department of Trade and Industry for pre-assessment and approval prior to the commencement of the project. This grant is payable against measurable milestones.

Scheme budget	ZAR 1 billion
Type of incentive	Cost sharing grant
Deadline	4 November 2018
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United Kingdom–automotive/aerospace sector

Advanced Manufacturing Supply Chain Initiative (AMSCI)–West Midlands and Liverpool City Region

Funding opportunity

The West Midlands and Liverpool City Region (WMLCR) Advanced Manufacturing Supply Chain Initiative (AMSCI) is an GBP 8.3 million fund (grant or loan) that aims to support the development of capacity in the UK's automotive and aerospace supply chains.

Key features

- GBP 8.3 million fund is available for businesses located within the four Local Enterprise Partnerships (LEPS) of Greater Birmingham and Solihull, Black Country, Coventry and Warwickshire and Liverpool City Region
- Project support of between GBP 100,000 and GBP 2.1 million (grant or loan)
- Open to automotive and aerospace supply chains
- Sole or consortium bids
- SMEs* or large companies
- Projects must create and/or safeguard sustainable jobs

**The European Commission definition of an SME is an enterprise with less than 250 employees and either turnover not exceeding EUR 50 million or a balance sheet not exceeding EUR 43 million.*

Expenditure supported

Funding is available to support projects in the following areas, subject to the EU state aid rules:

- Purchase of capital equipment, including the provision of working capital
- R&D activities that improve manufacturing equipment, systems or processes
- Training and skills development to support the project

Assessment criteria

Grants, rather than loans, may be available to support projects that can demonstrate one of the following criteria:

- R&D projects where there is a high degree of technical uncertainty as to the outcome
- Where supply chain capacity is being repatriated to the UK
- Where the project is considered to be mobile and would be located outside the UK without grant suppor

Scheme budget	GBP 8.3 million
Type of incentive	Cash grant
Deadline	1 June 2016 Competition deadlines: Expression of Interest 4 May 2016 and **1 June 2016 (**subject to availability) Successful applications from this stage will be invited to submit a full application
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United Kingdom

R&D tax relief

The UK budget announced on 16 March 2016 includes the following items that affect the R&D regimes:

As previously announced, the main UK corporation tax rate will be reduced from 20% to 19% as from 1 April 2017, but the intention is now to further reduce the rate to 17% as from 1 April 2020. Assuming the rate of credit remains at 11%, this will result in an increase in the net benefit for companies claiming the R&D expenditure credit (RDEC) from 8.8% to 8.9% of the qualifying R&D spend from 1 April 2017 and 9.1% from 1 April 2020.

For SME claimants, the reduction in tax rate will decrease the benefit available from the 230% super deduction. Profitable SMEs will see the benefit fall from 26% of the qualifying R&D spend to 24.7% from 1 April 2017 and 22.1% from 1 April 2020. For loss-making SMEs, the cash credit is calculated as 14.5% of the enhanced deduction and so, unless the rate of credit also is changed, will continue to represent 33.35% of the qualifying R&D spend.

The Chancellor announced plans to collect more extensive data on companies receiving state aid and, as the SME R&D tax relief is state aid, this falls within the reporting requirements. Therefore, details of companies receiving tax credits and enhanced deductions exceeding EUR 500,000 will be published in due course.

Vaccine research relief will be scrapped from 1 March 2017.

In addition to the above budget changes, readers are reminded that the RDEC is mandatory for large companies for expenditure incurred from 1 April 2016 when the historic 130% super deduction is abolished. RDEC is a different regime, providing a taxable, above-the-line credit, so companies will need to consider the accounting implications and any impact on the timing of tax payments.

The government also continues to encourage small businesses to make R&D claims, with the UK tax authorities (HMRC) launching a fully online process for applying for advance assurance. Applying for advance assurance is voluntary and a company can do this at any time before the first claim for R&D tax relief. If assurance is given, HMRC will allow the first three accounting periods of claiming the R&D relief without further enquiry.

Scheme budget	N/A
Type of incentive	Tax relief that reduces a company's UK corporation tax liability or, in the case of loss-making companies, may generate a cash credit
Deadline	Two years from the end of a company's accounting period
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United Kingdom–energy

The Energy Catalyst – Round 4

The aim of the Energy Catalyst competition is to accelerate the commercialization of UK energy innovation. It will help deliver clean, affordable and resilient energy. The competition will help businesses progress their innovations to commercial readiness. Innovative businesses and researchers from any sector can apply.

Proposed projects should address the three major challenges facing the energy industry. These are:

- Low carbon;
- Security of supply; and
- Affordability.

Three awards are available:

- Early-stage award: Technical feasibility;
- Mid-stage awards: Technology development; and
- Late-stage awards: Pre-commercial technology validation.

Innovations may include, for example:

- New technologies;
- Enhancement or alternative applications of existing technologies;
- Development of components, sub-systems or systems;
- Integrated whole-system approaches; and/or
- Enabling technologies for the energy system.

Proposals that bring innovative new solutions into the energy sector and its supply chain are encouraged. Projects that include cross-cutting and enabling technologies and that can apply across a range of sectors also are encouraged to apply. For example, high-value manufacturing, advanced materials, sensors and information and communication technologies (ICT).

Scheme budget	GBP 9 million
Type of incentive	Cash grant
Deadline	Competition deadlines: Registration closes for the mid-stage and late-stage awards on 8 June 2016. Registration closes for the early-stage award on 7 September 2016. All three competitions close on 14 September 2016.
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United States/Virginia

Virginia R&D expenses credit

Virginia recently enacted legislation amending the R&D expenses credit, effective for tax years beginning on or after 1 January 2016. The amendment increases the credit amount under the basic computation of the credit, increases the aggregate cap on credit available to all taxpayers in each tax year, provides for an alternative computation methodology using the alternate simplified credit method and extends the sunset date of the credit.

The amount of the R&D credit is increased to up to 15% of the first US$300,000 (previously, US$234,000) of the businesses' Virginia qualified R&D expenses that exceed a base amount and 20% of the first US$300,000 (previously, US$234,000) of such expenses if the R&D was conducted in conjunction with a Virginia college or university.

The annual aggregate credit available to all taxpayers is increased to US$7 million (previously US$6 million). The legislation also allows a taxpayer to elect to compute the credit using a simplified method in lieu of the current statutory method. Finally, the amendments extend the sunset date to tax years beginning before 1 January 2022 (previously 1 January 2019).

Scheme budget	The annual aggregate credit cap for all taxpayers is US$7 million
Type of incentive	Fiscal incentive
Deadline	Credit effective for tax years beginning before 1 January 2022
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United States/Virginia

Major R&D expenses credit created

Virginia recently enacted legislation that creates a new nonrefundable credit available against corporate and personal income tax for taxpayers with Virginia qualified R&D expenses in excess of US$5 million for a tax year, effective for tax years beginning on or after 1 January 2016.

The major R&D expenses tax credit is available in an amount equal to 10% of the difference between the Virginia qualified R&D expenses paid or incurred by the taxpayer during the taxable year, and 50% of the average Virginia qualified R&D expenses paid or incurred by the taxpayer for the three taxable years immediately preceding the tax year for which the credit is being determined. If the taxpayer did not pay or incur Virginia qualified R&D expenses in any one of the three tax years immediately preceding the taxable year for which the credit is being determined, the credit is available in an amount equal to 5% of the Virginia qualified R&D expenses paid or incurred by the taxpayer during the tax year.

The amount of the credit that may be claimed by the taxpayer for each year is limited to 75% of the taxpayer's Virginia income tax liability for the year and any unused credit for the year may be carried forward and applied against the taxpayer's income taxes in the next 10 taxable years.

Scheme budget	The annual aggregate credit cap for all taxpayers is US$20 million
Type of incentive	Fiscal incentive
Deadline	Effective 1 January 2016
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United States

Federal Work Opportunity Credit: retroactive extension

On 7 March 2016, the Internal Revenue Service (IRS) issued Notice 2016-22, providing guidance to employers claiming the Work Opportunity Tax Credit (WOTC). For certain employers seeking to qualify for the WOTC, the Notice provides additional time beyond the typical 28-day deadline to submit Form 8850 (Pre-screening Notice and Certification Request for the Work Opportunity Credit) to Designated Local Agencies (DLA).

The Protecting Americans from Tax Hikes Act of 2015 (PATH) retroactively extended the WOTC expiration date from 31 December 2014 to 31 December 2019, as applied to businesses that hire employees who fall within certain targeted groups.

In Notice 2016-22, the IRS acknowledges that the PATH's retroactive extension of the WOTC may cause employers to need additional time for filing of Form 8850 with a DLA. To address this concern, Notice 2016-22 provides employers that hire a member of a targeted group on or after 1 January 2015, and on or before 31 May 2016, an extension until 29 June 2016 to submit a completed Form 8850.

Scheme budget	The WOTC is a federal income tax credit ranging between US$2,400 to US$9,600 for each qualified newly hired employee who falls into one of several targeted groups
Type of incentive	Fiscal incentive
Deadline	Retroactive period ends 29 June 2016
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For more information

For more information on any of the programs listed above, please contact the in-country representative or your usual contact.
For further information on how Deloitte can assist with available grants and incentives please contact:

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