Global Tax and Legal | February 2015

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.

Australia

R&D tax incentive

In December 2014, the Australian government confirmed that the start date of the measure which is proposed to remove access to the R&D tax incentive for companies with annual aggregated assessable income of $20 billion or more will be delayed from income years commencing on or after 1 July 2013 to income years commencing on or after 1 July 2014.

This measure to delay the start date is estimated to have a cost to revenue of $300.0 million over the forward estimates period.

Scheme budget	N/A
Type of incentive	R&D
Deadline	N/A
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Czech Republic

OPPIK

A new subsidy program entitled "Business and Innovations for Competitiveness" is currently being prepared in the Czech Republic. The first calls for companies are expected to be published in spring 2015; the programs will principally focus on supporting the development of research and development capacities, using research and development results in practice, creating shared service centers and data centers, developing software, supporting renewable energy sources, implementing projects designed to reduce energy requirements in production and achieving energy savings programs in companies.

Scheme budget	€4.3 billion. The level of support ranges from 25 - 70 percent of the total project costs.
Type of incentive	Grants supported from EU structural funds
Deadline	Spring 2015
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Czech Republic—Private sector–with the exception of Prague

Investment incentives–the governmental draft of the act on investment incentives is discussed

Significant proposed legislative adjustments are as follows:

- the cancellation of the necessity to finance part of the investment from the investor's equity;
- new method of calculation of fixed tax for brownfield investment;
- exemption from the real estate tax for five years for preferential industrial zones.

Scheme budget	25% of invested eligible costs, cash at CZK 300,000 per newly created job
Type of incentive	Investment incentives
Deadline	For the application–none, for the utilization of the tax relief–10 years
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Germany—Biotechnology/Bio-economy/Chemical industry

Innovation initiative industrial biotechnology

Support of risky R&D projects in the field of industrial biotechnology focusing on, for example:

- Adapting production processes for the use of sustainable input e.g. waste, bio mass, CO2
- Integration of biotechnical procedures in chemical production processes, including the development of process technology
- Development of new analytical tools based on bio-active components in connection with ICT
- Biotechnical solutions for new materials
- Adoption of biotechnological processes in new industry sectors

The scheme is open to all industry sectors.

Scheme budget	• No overall budget published • For companies, grants of up to 50% of eligible costs can be awarded • For universities and research institutions, grants of up to 100% of eligible costs can be awarded
Type of incentive	Non-repayable cash grant to companies that are part of an alliance
Deadline	Calls for expressions of interest of research alliances until 1 June 2015. Submission of project outlines by 31 May 2016
Contact name	Oliver Hasse, Senior Manager or Teresa Stahl, Professional
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Germany—Security/Public Sector

Civil security–new economic aspects

The scheme aims to support projects focusing on economic interrelationships, value creation and innovative business models in a concrete scenario such as:

- New service processes and instruments for security measures
- Demand orientation and innovative organizational structures
- Cross- and system innovations
- Internationalization

Scheme budget	• Highly innovative joint projects of companies, universities, research institutions and end-users • No overall budget published • For companies, grants of up to 50% of eligible costs can be awarded • For universities and research institutions, grants of up to 100% of eligible costs can be awarded
Type of incentive	Non-repayable cash grant to a consortium
Deadline	Submission of project outline (first stage): 20 March 2015
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Germany—Water and Waste-water management/ Manufacturing

Future-oriented technologies and concepts to increase the water availability by water reuse and desalination

Funding of innovative technologies, operational concepts and management strategies for a sustainable increase of water availability and a future-oriented water management focusing on:

- Reuse of treated urban waste water
- Closed-loop circulation of water used for industrial purposes
- Treatment of salty groundwater and surface water

Scheme budget	• Joint projects of associates from economy, science and practical application • No overall budget published • For companies, grants of up to 50% of eligible costs can be awarded, funding quota for SME possibly higher • For universities and research institutions, grants of up to 100% of eligible costs can be awarded • No funding for construction investments
Type of incentive	Non-repayable cash grant to a consortium
Deadline	Submission of project outline (first stage): 30 April 2015
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Ireland

R&D tax credit

Following an extensive review process, Revenue released their first update of the R&D tax credit guidelines since December 2012. This in combination with recent legislative changes, may significantly impact the claim environment. Of particular note is:

- The **removal of the 2003 base year** from accounting periods commencing on or after 1 January 2015. This welcomed change means that claims from then on are therefore not calculated on an incremental basis. For companies involved in R&D in 2003, this may result in an instant increase in their claims.
- The updated Revenue guidelines have adopted a narrower and more prescriptive view of what qualifies as a **qualifying overhead cost**. This means a closer analysis and reflection of all overhead costs needs to be undertaken, which may result in a reduction of costs included.
- A heightened emphasis has been placed on the importance of relevant, contemporaneous **supporting documentation** to support claims. This directs companies towards recording, monitoring, and assessing R&D activities for the tax credit more real time, and not retrospectively.
- Revenue's view that companies can only include the net cost of **materials** which might have a commercial use (value) once the R&D has concluded, or those which are used as part of an existing trade. This could potentially have a negative impact on sectors such as manufacturing and engineering.
- Revenue's position that **Subcontracted/outsourced activity** "must constitute qualifying R&D activity in its own right". Unfortunately this is not consistent with previous guidance or correspondence, where "activities to be used in connection with" R&D activities are deemed qualifying.

Scheme budget	25% of qualifying expenditure
Type of incentive	Tax credit
Deadline	12 months following end of accounting period
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Italy—all sectors

Patent box changes

The Law Decree "Investment Compact" has improved the Italian Patent box regime, which was mentioned in our November 2014 newsletter. The 50% tax exemption (30% and 40% as for FYs 2015 and 2016) of incomes earned from IP will be extended to each category of brand, both commercial and not. Moreover, in cases where income from IP is generated among companies belonging to the same group (intercompany relationships) the international standard ruling procedure to determine the income amount will not be considered compulsory.

Moreover, expenditures related to the acquisition of IP assets and the purchasing of R&D services from a company belonging to the same group will be eligible for up to 30% of the overall amount of the qualifying expenditures.

Scheme budget	Approximately €150 million for FY 2015
Type of incentive	Patent Box regime (50% tax exemption)
Deadline	30 September 2016
Contact name	Ranieri Villa, Partner
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Italy—all sectors

"R&D intensive SMEs" regime

The Law Decree "Investment Compact" extends most of the incentives granted to "R&D Intensive Start-up companies" (IST), which was mentioned in our previous newsletter to "R&D intensive SME". In order to benefit from some of the incentives granted to start-ups, R&D intensive SMEs have to fulfil, among others, two over three of the following requirements:

1. R&D expenditures have to be at least 3% of the higher between turnover and costs;
2. at least 1/5 of the employees have to be high qualified;
3. it has to be the owner or the licensee of a patent or a registered software.

Scheme budget	N/A
Type of incentive	Special regime for "R&D intensive SMEs"
Deadline	N/A
Contact name	Ranieri Villa, Partner
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The Netherlands

INTERREG North West Europe (NEW), North Sea Region(NSR) and Europe

The INTERREG scheme is designed to strengthen economic, social and territorial cohesion throughout the European Union, by fostering the balanced development of the continent through cross-border, transnational and interregional cooperation. Themes: innovation SME, labour mobility, low-carbon economy etc.

Scheme budget	Budget 2014-2020: INTERREG NEW: €335 million, INTERREG NSR: € 328 million, and INTERREG Europe €359 million
Type of incentive	Cash grant; 50-60%
Deadline	Call open: begin April 2015 and deadline May-June 2015
Contact name	Kees Tuinenbreijer, Senior Manager
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Portugal

Rural development program 2014-2020–investment in agricultural explorations

Support investments in agricultural explorations that aim at the following objectives: (i) enhance the viability and competitiveness of agricultural explorations, promote innovation, training, organizational training and resizing companies, or (ii) preserve and improve the environment, ensuring compatibility investments with environmental standards and health and safety at work.

Scheme budget	€39 million
Type of incentive	Non repayable cash grant of up to €2 million per beneficiary, followed by a repayable cash grant for the exceeding amount, up to €2 million. The base support rate is 30%.
Deadline	30 June 2015
Contact name	Sérgio Paulo Oliveira, Partner
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Portugal

Rural development program 2014-2020–investment in the processing and marketing of agricultural products

Support investment projects that aim at the following objectives: (i) promote the expansion and renovation of agro-industrial production structures, enhance value creation, innovation, quality and food safety, the production of tradable goods and the sector's internationalization, or (ii) preserve and improve the environment, ensuring compatibility investments with environmental standards and health and safety at work.

The investment projects must be carried out by entities that operate within the secondary agricultural sector and contribute to the development of production or to the added value of agricultural production.

Scheme budget	€33 million
Type of incentive	Non repayable cash grant of up to €3 million per beneficiary, followed by a repayable cash grant for the exceeding amount. The base support rate is between 35% (less developed regions) and 25% (other regions).
Deadline	30 June 2015
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Portugal

Incentives for the qualification and internationalization of SMEs–joint projects for internationalization

Support joint projects undertaken by SMEs and non-profit associations in order to increase companies' capacity and active presence in the global market, which may include expenses related to the knowledge of markets, international development and promotion, prospection of and presence in international markets, international marketing, use of digital channels, amongst others.

Scheme budget	€70 million
Type of incentive	Non repayable cash grant of 50% to SMEs and 85% for non-profit associations
Deadline	13 February 2015
Contact name	Sérgio Paulo Oliveira, Partner
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Portugal

Incentives for the qualification and internationalization of SMEs–joint projects for qualification

Support joint projects undertaken by SMEs and non-profit associations in order to increase companies' productivity, flexibility and response capacity in the global market, which may include expenses related to information and communication technologies, digital economy, brands and design, development of new products and services, quality, knowledge transfer, eco-innovation, distribution and logistics, amongst others.

Scheme budget	€25 million
Type of incentive	Non repayable cash grant of 50% to SMEs and 85% for non-profit associations
Deadline	13 February 2015
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Slovakia—public and private sectors

Air protection

Supported projects will have eligible costs not exceeding EUR 50mil aimed at reducing emissions of basic and other air pollutants, and also of greenhouse gas emissions in the production of heat, including changes in the energy source fuel base to renewable energy sources.

Scheme budget	EUR 8,580,000
Type of incentive	Non-refundable financial contribution. The maximum aid intensity for the project realized by a private sector entity is 95% and for public sector 100%. The project has to be realized by 31 December 2015.
Deadline	23 March 2015
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United Kingdom—Research and development

Industrial biotechnology catalyst

The Industrial biotechnology catalyst program will accelerate commercialization by supporting the development of new industrial biotechnology products and processes, and enabling their potential scale-up. It will support R&D for the processing and production of materials, chemicals and bioenergy through the sustainable exploitation of biological resources.

Projects should address one or more of the following challenges using biological processes, or processes in which biological and chemical approaches are used in combination:

- production of fine and speciality chemicals and natural products (for example fragrances, flavours and pharmaceutical intermediates)
- production of commodity, platform and intermediate chemicals and materials (for example plastics, resins and textiles)
- production of liquid and gaseous biofuels
- production of peptides and proteins (for example enzymes, antibiotics and recombinant biologics)
- novel or improved upstream or downstream processes to reduce costs or improve efficiency.

Total project sizes can range from up to £250k for feasibility studies to up to £10m for Experimental development. Collaboration is particularly encouraged.

Levels of funding will depend upon the category of research, the applicant (academic or industry), and the size of the company. For example, a company could attract 50% public funding of project costs for Industrial Research (up to 70% for SMEs) and 25% for Experimental Development (up to 45% for SMEs).

Scheme budget	£40 million
Type of incentive	Cash grant
Deadline	Registration deadline 25 February 2015; competition deadline 4 March 2015
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United States (California)

Aerospace tax credit

The Aerospace tax credit is a wage-based tax credit for manufacturers of "new advanced strategic aircraft for the United States Air Force" for taxable years beginning on or after 1 January 2015, and before 1 January 2030. This income tax credit is equal to 17.5% of qualified wages paid to qualified full-time employees during the taxable year. The phrase "new advanced strategic aircraft for the United States Air Force" refers to aircraft developed and produced for the United States Air Force under the "New Advanced Strategic Aircraft Program,' which includes projects to design, test, manufacture, or otherwise support production of a new advanced strategic aircraft for the U.S. Air Force under a contract that is expected to be awarded in the first or second calendar quarter of 2015. To qualify for the credit, a taxpayer must fall under the definition of a "major first-tier subcontractor" that is awarded a subcontract to manufacture property or components to use in a new advanced strategic aircraft for the U.S. Air Force.

Scheme budget	$420 million over 15 years
Type of incentive	Fiscal incentives
Deadline	Beginning on or after 1 January 2015 and before 1 January 2030
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United States (Virginia)

Virginia research & development expenses tax credit

The Virginia research & development expenses tax credit is an individual and corporate income tax credit for certain taxpayers that incur Virginia qualified research and development expenses. 2014 legislation changes increases the annual credit cap, increases the thresholds for computing the credit, and allows passthrough entities to elect to claim the credit at the entity level. Effective for Taxable Year 2014 and thereafter, the base credit is equal to: (i) 15 percent of the first $234,000, in Virginia qualified research and development expenses paid or incurred by the taxpayer during the credit year, or (ii) 20 percent of the first $234,000 in Virginia qualified research and development expenses paid or incurred by the taxpayer during the credit year if the Virginia qualified research was conducted in conjunction with a Virginia public or private college or university, to the extent such expenses exceed the taxpayer's Virginia base amount. The Research and Development Expenses Tax Credit is a refundable credit, therefore, if the amount of credit that a taxpayer is allowed to claim exceeds the taxpayer's liability for the tax year, then the excess amount of credit will be refunded to the tax payer.

Scheme budget	$6 million credit cap for call credits
Type of incentive	Fiscal incentives
Deadline	N/A
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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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