



# Financial affairs

## R&D tax relief opportunities for financial services companies

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Contrary to common perceptions financial companies are actively engaged in R&D primarily in the development of IT systems to facilitate the operations

Financial services providers are increasing their research and development (R&D) spend on technology. Investments include software and technology development to address strategic business imperatives, such as the urgent need to deploy sophisticated on-demand services for customers and comply with constantly changing regulatory requirements.

Our experience shows that whilst R&D tax benefits are now well established, very few financial companies are claiming the relief due to a misconception that they are not involved in R&D. Eligible activities for this purpose are actually much wider than many people believe and so opportunities are being lost.

#### What are the benefits?

Tax relief on R&D expenditure was first introduced in Russia in 2009.

In accordance with the tax legislation, eligibility for the R&D incentive extends to any activity of an intellectual and project-related nature, related to development or creation of new products, services, technology and management. This definition of R&D activity includes making appreciable improvements to the existing systems.

Companies conducting eligible R&D activities can apply for a 150% super deduction of qualifying costs to reduce profits tax/increase deferred tax assets. Specific areas of eligible R&D activities are stipulated by the Government, and the list was significantly extended in 2012.

Qualifying revenue expenditure includes the salary costs of technologists and other employees directly and actively involved in the R&D process, depreciation of equipment employed in the R&D process, material costs, contractors expenses, and other relevant expenses (up to 75% of the eligible payroll). Claims are possible for costs paid to third parties to whom R&D work has been subcontracted.

Investments to development or implementation of new IT solutions for business needs may lead to reduction of profits tax by 10% of eligible expenses, which will provide either significant cash flow advantage or increase deferred tax asset.



Whilst R&D tax benefits are now well established, very few financial companies are taking full advantage of the benefits available to them

#### Understanding your industry

Contrary to common perceptions financial industry is a sector where many companies are actively engaged in R&D primarily in the development of IT systems to facilitate the operations. Any development work where your personnel face considerable technological challenge, provided the solution is not available to, or readily deducible by, has the potential to qualify for the enhanced tax relief.

Some examples of generic qualifying areas for financial sector companies are:

#### For financial companies (including banks):

- Enterprise applications implementation (ERP systems)
- Data warehousing techniques introducing, including next generation enterprise service-bus middleware architecture for business intelligence (ESB)
- Automation of business processes
- E-Business initiatives providing new ways to access legacy systems (internet banking, faster payments implementation)
- Software development related to compliance with global, European and local regulatory requirements (Solvency II, Mifid, Basel, FATCA)

- Software development intended to leverage CRM, involving predictive analytics for fraud detection and customer lifetime management
- Significant advances in calculation engines, artificial intelligence, predictive modeling, complex algorithms and statistical analysis

#### For insurance organizations:

- Development and implementation of general insurance systems, policy administration, risk modelling and calculation, quotes generation

#### For investment management companies:

- Development and implementation of risk engines, portfolio valuation, assets management systems, risk management systems, market data processing systems, quantitative analysis



#### The Deloitte difference

An effective claim requires a comprehensive and authoritative review of activities and associated costs and a detailed understanding of technological issues. A claim can only be optimised by involving technical staff that come from an IT/Computer Science background, who understand the nature of the activities undertaken and can evaluate this in the context of the legislation.

The preparation of an optimal R&D claim can be a labour intensive and time consuming exercise. To deal with this effectively requires knowledge and experience of cost systems, accounting principles, sampling methodologies and project management. The Deloitte R&D tax services team can assist by ensuring that all activities that could qualify for the relief are identified, assessed, documented and, where appropriate, claimed.

Deloitte has the largest Global R&D Tax Services team, comprised of tax consultants as well as software engineers and technologists, many with over 20 years of experience. We can draw upon more than 200 dedicated R&D specialists throughout Europe and a further 450 specialists around the world. Our global team is highly experienced in managing and implementing projects of this nature in several countries.

The Russian team is able to take advantage of this global expertise and combine a globally consistent methodology with the local experience for claims strategy, preparation and defence.

Our integrated local team can prepare a robust R&D claim on a turnkey basis with minimal disruption to your core business by talking to both your financial and technological staff in their language and producing claim support documentation using a proven methodology. Our service model also offers the provision of training to your staff.

Deloitte has also a breadth of experience in dealing with Russian tax authorities and we are also confident that Deloitte's involvement in advising the Russian Government in establishing the R&D relief will stand us in good stead to help you prepare and agree your R&D claims. Through these discussions we are also confident that the Russian authorities are seeking to build an internationally competitive and effective R&D regime, so we believe our international R&D experience will be of relevance.



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Investments to development or implementation of new IT solutions for business needs may lead to reduction of profits tax by 10% of eligible expenses



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