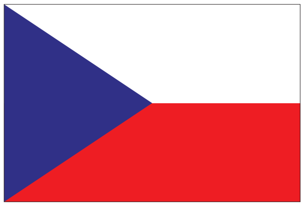
Czech Republic



The 200% super deduction offered in the Czech Republic can be carried forward for three years if it cannot be utilized in the year the qualified research expenses are incurred.

Background

The corporate income tax rate for 2015 is 19%. The Czech Republic offers a super deduction for costs incurred for qualified research activities.

Nature of incentives

Super deduction: A deduction equal to 200% of the costs incurred during the implementation of R&D projects is available.

Tax relief: Corporate income tax relief is available for 10 years for investments in technological centers and strategic service centers under the amended Investment Incentives Act effective from July 2012.

Other non-tax related R&D incentives: There are cash grant programs for R&D, including capital expenditure (CAPEX) investment or operating costs (OPEX).

R&D projects include projects in the form of experimental or theoretical works, design or drawing works, calculations, proposed technology, or the making of a functional sample or a product prototype or a part thereof.

If the super deduction cannot be utilized in the year it is claimed, it may be carried forward and utilized within the next three taxable periods.

Eligible industries and qualifying costs

The basic criteria that distinguish R&D from other activities are the presence of a measurable element of novelty and clarification of research or technical uncertainties. These must be present even if the subject of the research is known in the industry, as long as the taxpayer can prove that it is materially or economically inaccessible to it, or unusable for another material or economic reason, or taxpayer had no information on its existence at the time the project was undertaken. The criteria for qualified research are similar to the definition of R&D in the OECD Frascati Manual.

Qualified activities include the introduction of new or improved technology, systems or services, and the production of new or improved materials, products and equipment, design and verification of prototypes, pilots or demonstration equipment.

Qualified expenses include wages and salaries; depreciation of tangible movable property used in direct relation to the project; and, other operating expenses directly related to the project (i.e., travel reimbursements, materials, supplies, low value assets, costs related to financial leasing, the subsequent purchase of such leased assets, expenses for books and magazines, electricity, heat, gas, telecommunications, and water and sewage rates). Purchased R&D and contract research services generally are not qualified research expenses. There is an exception, however; R&D services provided by public universities and public research institutions. The super deduction excludes expenses paid for with government and public subsidies.

IP and jurisdictional restrictions

The IP created through qualified research need not be registered under the name of the taxpayer that is claiming research tax incentives. Not all R&D activities must occur within the Czech Republic to qualify for a super deduction, but qualified expenses described above must be tax deductible expenses of the Czech taxpayer.

Other concerns

The taxpayer must compile a written "summary" document specifying the qualified activities before the project starts. The summary is part of the mandatory internal documentation that must be completed, but does not have to be submitted with the annual tax return. This summary may, however, be reviewed during a tax audit. The summary typically includes the following: description and objectives of the project; project schedule and phases, project administrative process, project staffing, and project budgets.

Contact:
Ludek Hanacek
lhanacek@deloittece.com
420 246 042 108

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Super deduction and cash grants	1. 200% super deduction of qualified R&D costs. 2. Cash grant programs for R&D including CAPEX and OPEX investments. 3. Corporate income tax relief for investments in qualified areas.	No	If the deduction cannot be claimed in the year in which it arose (due to a tax loss or the deduction exceeding the annual tax base) the deduction (or remaining part thereof) may be carried forward and utilized within the next three taxable periods.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No