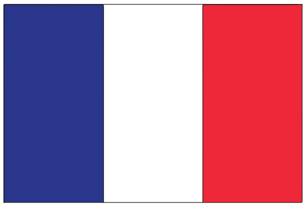
France



France offers a variety of R&D incentives including refundable tax credits, grants, special innovation tax credits and a patent box.

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Background

The effective corporate income tax rate ranges from between 33.33% to 38%.

France offers an R&D tax credit that is volume-based and may be carried forward for three years. To the extent the credit is not utilized within the three-year period, the taxpayer is entitled to a refund. SMEs, new companies, young innovative companies and companies with financial issues can request an immediate refunds of unutilized credits.

Nature of incentives

R&D expenses are deductible in the year in which they are incurred. Additionally, France offers an R&D credit equal to 30% of the first EUR 100M of qualified R&D expenditure incurred during the tax year. The rate is reduced to 5% for qualified R&D expenditure exceeding that amount.

A company eligible for a R&D tax credit for the first time or that was not eligible for the tax credit within the past five years also can benefit from an enhanced R&D tax credit rate of 50%, which is applicable during the first year and reduced to 40% for the second year (provided the company is not related to other companies who have claimed the R&D tax credit in the five preceding years).

France offers additional incentives aimed at encouraging the growth of R&D-intensive businesses, including innovation grants and accelerated depreciation for fixed assets used in R&D activities, as well as a patent box.

An innovation tax credit was introduced for SMES (i.e., companies with fewer than 250 employees and sales revenue of less than EUR 50M) on 1 January 2013 for downstream activities, such as expenditure for new prototypes or pilot assets. The credit rate is 20% (40% for companies in French Overseas Departments as from 1 January 2015), and the amount of qualifying expenses is capped at EUR 400K.

Income from licensing (and the sub-licensing of eligible IP rights as from 2011) or the sale of patent or patentable technology are taxed at a reduced rate of 17%, provided the technology was owned by the French company for at least two years (the sale of technology to related parties is excluded from the benefit of the 17% rate). Moreover, for the French licensee, the royalty fee is deductible at the standard corporate income tax rate (unless the licensee does not effectively exploit the IP rights).

Eligible industries and qualifying costs

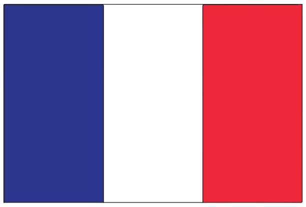
There is no restriction on the types of entities that may qualify for incentives. Qualified activities include basic research, applied research, and development activities. The definition of qualifying R&D is from the OECD Frascati Manual. To qualify, R&D activities must:

- Present a significant technological, technical or scientific advancement when compared to the then current state of the art.
- Be associated with scientific/technological uncertainties and uncertain with regard to the anticipated outcome.
- Require the use of scientific methods and/or an experimental approach.

Generally, eligible expenses include the following: R&D staff expenses, general and administrative expenses, depreciation allowances for assets used for R&D activities in France, patent costs, contract research costs, and costs of technological monitoring. Materials used in the research process do not qualify. The law also allows an estimate of general and administrative (G&A) expenses. The formula for eligible G&A expenses, effective since 1 January 2011, includes G&A expenses equal to 50% of all R&D staff expenses (previously 75%), and 75% of the depreciation allowance of assets used in R&D activities in France (including research equipment and facilities).

Research credits can be claimed by contractors performing research on a time/materials basis because there is no at-risk rule under French law. The following limits apply to the amount of qualifying contract research expenses: (i) there is a cap on private subcontracted expenses equal to three times all other qualifying expenses, but in no event can the subcontracted R&D fees exceed EUR 10M; and (ii) qualifying contract research is limited to EUR 2M where the taxpayer and the subcontractor are related entities.

France (cont.)



IP and jurisdictional restrictions

All of the qualifying activities must take place within the EU (provided the expenditure is part of the company's tax base). There is no restriction on the location of any resulting IP.

Other concerns

The taxpayer can request government pre-approval of projects, although this is not required to benefit from any of the incentives. Taxpayers also can apply for contractor certification from the Ministry of Research. Payments made to certified contractors are treated as R&D expenditure. Companies with R&D expenses exceeding EUR 100M must comply with documentation requirements. Failure to comply with the documentation requirements may result in penalties.

France

Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credits, cash grants accelerated depreciation, and patent box	1. 30% tax credit for the first EUR 100M of qualified R&D expenditure incurred during the tax year. For qualified research expenditure above this EUR 100M threshold, the rate is reduced to 5%. 2. Cash grants for R&D and acceleration of depreciation deductions for fixed assets used in qualified research. 3. An additional credit is offered to SMES for specified downstream activities, such as the development of new prototypes or pilot assets. 4. A patent box offers a reduced corporate tax rate of 17% for income from licensing or selling patents or patented technology provided the IP was owned by the French company for at least two years (the sale of technology to related parties is excluded from the benefit of the 17% rate).	No	If research tax credits are not utilized within three years, the taxpayer receives a refund for the unutilized credit. SMEs, new companies, young innovative companies and companies with financial issues can request an immediate refunds of unutilized credits.

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
100% of the qualified activity must take place within the EU/EEA, provided the expenditure is part of the company's tax base.	The cap on private subcontracted research equals three times other qualifying expenses (limit of EUR 10M subcontract expenses). If the contracted parties are related, the expenses that can be taken into account are limited to EUR 2M. A EUR 400K cap on the ITC.	No	No