Preface

The Global Survey of Research and Development (R&D) Incentives reflects the wide variety of tax and fiscal policies adopted by governments worldwide to promote business R&D. Most of the 34 Organization for Economic Co-Operation and Development (OECD) countries offer preferential tax treatment to R&D expenditure—including current deductions, allowances and credits, and accelerated depreciation of R&D capital expenditure. A number of countries have innovation or patent boxes, under which income attributable to intellectual property (IP) developed through R&D is taxed at favorable rates. In addition, all OECD countries offer R&D grants, loans or other fiscal incentives. For an in-depth analysis of the policy issues affecting research tax incentives, see the articles posted on the OECD web site www.oecd.org/sti/rd-tax-stats.htm, which provides detailed comparisons of different tax regimes for promoting R&D.

Many of the countries reviewed in this 6th edition of Deloitte's Global Survey of R&D Incentives have changed their laws or policies since the last edition in March 2014. There is no consistent global trend reflecting a movement toward curtailing or expanding R&D incentives. In fact, some countries expanded select incentives and curtailed others. The following is a brief review of the changes since March 2014, which demonstrates that many governments are continuing to search for the right mix of incentives to encourage the growth of R&D in their countries.

Many countries in this Global Survey have changed their laws or policies since the last edition was released in March 2014.

The following countries have expanded their R&D incentives since March 2014:

Austria—Effective on or after 1 January 2016, the tax credit rate will increase from 10% to 12%.

France—As from 1 January 2015, the tax credit rate for the innovation tax credit (ITC) increased to 40% for companies in French Overseas Departments. All other qualifying companies apply a 20% rate.

Ireland—The incremental tax credit converted to a volume-based credit on 1 January 2015. Previously, the credit was 25% of the amount exceeding total qualified expenditure incurred during 2003.

Italy—A new incremental R&D tax credit scheme was introduced for FY2015 through FY2019 that offers a 25% or 50% credit of the annual R&D incremental expenditure exceeding the average expenditure incurred during FYs 2012, 2013 and 2014 depending on the nature of the expenses incurred. Italy also introduced a patent box that provides a 50% tax exemption phased-in over a three-year period: (i) a 30% exemption for FY2015, (ii) a 40% exemption for FY2016, and (iii) a 50% exemption for FY2017.

Japan—The tax credit for special R&D costs was expanded for fiscal years beginning on or after 1 April 2015 to include royalty payments made to small and medium-sized enterprises (SMEs). This credit is increased to 30% of the special R&D costs where there is joint R&D with a university or pubic research institution, or where the R&D is contracted to such entities.

Latvia—As from 1 July 2014, a 300% super deduction is granted for eligible qualifying expenditure (previously 150%).

Mexico—Although R&D incentives were eliminated as part of the 2010 tax reform, funds have been allocated to extend R&D grant programs to provide direct cash subsidies for qualified R&D projects undertaken in 2014 and 2015.

Russia—For the period of 2015-2017, companies involved in developing software may qualify for reduced social security contribution rates.

Singapore—Changes in the super deduction under the Productivity and Innovation Credit scheme (PIC) affect the 250% (for Singapore-based R&D) or 300% (for non-Singapore-based R&D) deduction by raising the super deduction limit for SMEs to SGD 600K for 2015. The combined cap for the PIC enhanced super deduction was also raised for qualifying SMEs for tax years 2016 to 2018 to SGD 1.8M for SMEs over the three-year period.

Slovakia—Slovakia introduced a 125%-150% R&D super deduction effective for tax years beginning on or after 1 January 2015.

South Africa—Costs incurred in developing generic medicine and conducting related clinical trials qualify for the 150% super deduction. Although the law was changed in 2015, it applies to costs incurred from 1 October 2012.

Spain—A broader range of software development now qualifies for research tax incentives. Although such software development must be innovative, pilot projects related to the animation developed for video games are considered innovative.

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United Kingdom—The super deduction for SMEs was increased to 230% for qualifying expenditure incurred on or after 1 April 2015. The cash credit rates were increased for credits computed on qualifying expenditure incurred on or after 1 April 2015. The new credit rate for SMEs is 33.35% (32.63% before that date) and for large companies the new rate is 11% (10% before 1 April 2015).

The following countries have curtailed their R&D incentives since March 2014:

Australia— For expenditure incurred after 1 July 2014, a refundable volume-based tax credit of 45% of eligible R&D expenditure is available for small companies. A 40% non-refundable tax credit is available for all other eligible entities. The R&D tax incentive is available only at the above rates on eligible expenditure up to AUD 100M. R&D expenditure in excess of this cap is still claimable, but only at the relevant corporate income tax rate (30% for all taxpayers, except SMEs that are subject to rate of 28.5% effective 1 July 2015).

Japan—For fiscal periods beginning on or after 1 April 2015, the 12% research tax credit for SMEs is limited to 25% of the company's national corporation tax liability before the credit is applied (previously 30%). For fiscal years beginning on or after 1 April 2015, unused tax credits no longer may be carried forward (previously a one-year carryforward).

United Kingdom—From 1 April 2015, amounts incurred on consumables that are used in production trials, prototypes or "first-of-class assets" and later sold, or for which ownership is transferred, must be excluded from the claims. As from 31 March 2016, the 130% super deduction no longer will be available for large companies, i.e., the cash credit will be the only available expenditure-based research tax incentive.

The following countries reviewed have clarified their research-incentive laws since March 2014:

Brazil—In 2014, the Ministry of Science, Technology, and Innovation (MCTI) updated its electronic application form to provide guidance to claimants regarding information reporting. The MCTI also has re-structured its review process and formed a Technical Assistance Committee, comprised of technical specialists, to perform claim reviews for 2013 and later years.

Italy—The government specified the filing requirements that must be met to claim the 35% tax credit for hiring researchers.

Latvia—In 2015 guidance was issued to clarify the type of activities that are eligible for the super deduction.

Romania—Guidance issued in March 2015 clarifies the type of expenses that are eligible for research tax incentives and introduces documentation requirements to qualify for the incentives.

United States—Final regulations were issued in 2015 providing that taxpayers can elect the alternative simplified credit (ASC) on amended returns if certain requirements are met. Under prior law, taxpayers were required to elect the ASC on timely filed original returns. Final regulations were also issued in 2015 clarifying the type of supply expenditure incurred in R&D activities that qualify for current deductions. Proposed regulations were also issued in 2015 clarifying the requirements for claiming internal use software for the research credit. Taxpayers are permitted to apply the proposed internal use software rules for tax years ending on or after 20 January 2015. The new internal use software rules are intended to expand opportunities for taxpayers to claim research credits for software-related expenses.

The following countries have proposals that are likely to impact R&D incentives in the future:

Australia—Legislation has been proposed to reduce the research credit rates to 43.5% for SMEs (from the current 45% rate) and to 38.5% for all other companies (from the current 40% rate) effective 1 July 2014.

Greece—A presidential decree was expected in 2015 revising the definition of qualifying research expenses to align with the OECD Frascati Manual. The current political situation in Greece has put most of the incentives legislation on hold.

Netherlands—The current incentives providing super deductions (RDA) and wage tax relief (including reduced social security contributions) are expected to be changed for 2016. The new scheme will focus on wage tax reductions, but also will provide a super deduction that will be a 'below-the-line' incentive effective as from 2016. Details are expected to be published shortly.

Poland—The government intends to introduce tax relief for R&D activities in the form of a super deduction. The new tax relief is expected to be introduced no sooner than in 2016 and details have not yet been finalized. Furthermore, Poland is currently developing new programs for support of R&D to be financed from EU funds during the period 2014–2020.

South Korea—Proposed legislation for 2015 would reduce the tax credit for investment in R&D facilities by reducing the credit rate for large corporations from 3% to 1% and for SMEs from 5% to 3%. The revised rule would be effective for investments made on or after 1 January 2016.

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Spain—The following changes have been proposed to the patent box regime and, if adopted, would be applicable from 1 July 2016:

- The requirement that a company's stake in the creation of the intangible asset must be at least 25% would be abolished.
- The fixed 60% exemption would remain applicable for entities that created the intangible asset, but would be proportionally reduced for entities that did not fully create the intangible.

United States—Although the research credit provision expired on 31 December 2014, there is extensive support for extending the credit through 2015. The credit provision has been extended 17 times since it was signed into law in 1981. Draft legislation for an innovation box was proposed in July 2015 that would offer about a 10% tax rate on income attributable to innovations.

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The information contained in this survey is current as of 1 December 2015, but is subject to change.

If you have any questions about the incentives described for any of the countries, do not hesitate to contact the leader of Deloitte's Research & Development and Government Incentives practice group for the particular country. The contact information for the leader of each practice group is included with the description of each country's incentives.

The 2015 Global R&D incentives has been prepared by various member firms of Deloitte Touche Tohmatsu Limited international network and is based on based on Deloitte's understanding of current legislation, case law and tax authority practice as at date the survey was conducted, December 2015. It is intended as a general guide only, and its application to specific situations will depend on the particular circumstances involved. Accordingly, it is recommended that readers seek appropriate professional advice regarding any particular R&D regime before taking any action that may affect their business or finances. While all reasonable attempts have been made to ensure that the information contained herein is accurate, neither Deloitte Touche Tohmatsu Limited nor any of its member firms accepts any responsibility for any errors or omissions it may contain, or for any losses, however caused, sustained by any person that relies upon it.