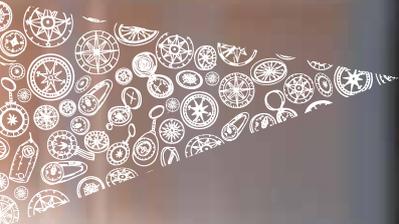


Worldwide R&D incentives reference guide

2014-15



EY

Building a better
working world

Preface

The pace at which countries are reforming their R&D incentives regimes is unprecedented. For some, this means introducing completely new incentives; for others, it means making incentives more generous in a bid to foster growth. And for many countries, it means targeting their incentives more tightly, focusing their limited funds more narrowly on those sectors and activities they think will provide the greatest levels of support to their long term goals.

Taxpayers need a current guide such as the Worldwide R&D Incentives Reference Guide in such a shifting tax landscape, especially if they are contemplating new or expanded investments in R&D. The content is straightforward. Chapter by chapter, we summarize key R&D incentives in 42 jurisdictions.

The content is current on 15 March 2014, with exceptions noted.

Each chapter begins with contact information for the key R&D incentives professionals in that country's EY offices. We then lay out a short overview of that country's approach to incentivizing R&D activity, as well as providing a checklist showing which types of incentives are available. Where an incentive is most commonly referred to in local language, we have provided a translation. In many cases, our professionals indicate which incentive they believe provides the highest level of value to applicants.

For each incentive, we list the following information:

- ▶ Description of benefits
- ▶ Guidelines around incentive applications
- ▶ Eligibility requirements
- ▶ IP and jurisdictional requirements
- ▶ Role of governmental bodies in administering the incentive
- ▶ Administrative requirements
- ▶ Any statutory references

Worldwide R&D Incentives Reference Guide is joined by three companion guides on broad-based taxes: the Worldwide Corporate Tax Guide, Worldwide Personal Tax Guide and the Worldwide VAT, GST and Sales Tax Guide. In recent years, those three have been joined by five other tax guides on more specialized topics: the International Estate and Inheritance Tax Guide, the Family Business Tax Guide, the Transfer Pricing Global Reference Guide, the Global Oil and Gas Tax Guide, and the Worldwide Cloud Computing Tax Guide.

Each represents thousands of hours of tax research, making the consolidated suite of nine guides the most reliably comprehensive product of its kind. The entire suite is available without charge online, along with timely Global Tax Alerts and other insightful publications on at ey.com/tax or in our EY Global Tax Guides app for tablets. Please contact us if you need more copies of the Worldwide R&D Incentives Reference Guide.

Keep up with the latest updates at ey.com/GlobalTaxGuides, and find out more about the app at ey.com/TaxGuidesApp.



Contents

2	Summary of available R&D incentives	172	Poland
6	Argentina	180	Portugal
12	Australia	188	Romania
16	Austria	192	Russia
22	Belgium	198	Singapore
32	Brazil	204	Slovak Republic
36	Canada	210	Slovenia
40	Chile	216	South Africa
46	China	222	South Korea
54	Colombia	226	Spain
60	Czech Republic	232	Sweden
66	Denmark	238	Switzerland
70	France	244	Thailand
78	Germany	250	Turkey
84	Hungary	256	United Kingdom
90	India	262	United States
102	Indonesia	268	Vietnam
106	Ireland	276	European Commission's Horizon 2020 Program
114	Italy	278	R&D incentives summary matrix – Americas (2014-15)
122	Japan	284	R&D incentives summary matrix – Asia-Pacific (2014-15)
126	Lithuania	292	R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)
130	Luxembourg	318	Contacts
140	Malaysia		
148	Mexico		
154	Netherlands		
162	Norway		
166	Philippines		

Summary of available R&D incentives

Country	Accelerated depreciation on R&D assets	Cash grants	Expedited government approval process	Financial support	Income tax withholding incentives	Infrastructure/land preferential price	Loans	Patent-related incentives
Argentina								
Australia								
Austria								
Belgium								
Brazil								
Canada								
Chile								
China								
Colombia								
Czech Republic								
Denmark								
France								
Germany								
Hungary								
India								
Indonesia								
Ireland								
Italy								
Japan								
Lithuania								
Luxembourg								
Malaysia								
Mexico								
Netherlands								
Norway								
Philippines								
Poland								
Portugal								
Romania								
Russia								
Singapore								
Slovak Republic								
Slovenia								
South Africa								
South Korea								
Spain								
Sweden								
Switzerland								
Thailand								
Turkey								
UK								
US								
Vietnam								





Argentina

Argentina

This chapter is based on information current as of 15 March 2014.

EY contact:

Gustavo Scravaglieri

gustavo.scravaglieri@ar.ey.com

+54 11 4510 2224

Overview

The tax policy in Argentina in relation to business incentives is currently not very extensive.

The main incentives are those found in the software promotional regime, the biotechnology promotional regime, the R&D regime and the training courses regime. In general, they provide for tax reductions, VAT reimbursement, accelerated depreciation for income tax purposes, and certain exemptions and tax credits. Though most of the regimes have existed for several years, their utilization is not fully leveraged by taxpayers. Furthermore, some regimes are subject to a cap established by the national government, according to its annual budget as well as other related regulations.

In addition, the Argentine Technology Fund (FONTAR) and the Software Industry Fiduciary Fund (FONSOFT) provide for cash grants for certain projects. Every year the authorities issue a tender in which they state the terms and conditions that the projects must observe and the amounts to be accorded. There are eligibility requirements that Argentine companies must comply with in order to assess the benefits.

2014 tax rates

Top corporate income tax rate	35% ¹
Standard value added tax (VAT) rate	21% ²

¹ The 2013 Worldwide Corporate Tax Guide, EYGM Limited, July 2013.

² Ibid.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input checked="" type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Software promotional regime*	R&D promotional regime	Biotechnology promotional regime	Training courses regime
Types of incentives	<ul style="list-style-type: none"> ▶ Reduced tax rates ▶ Tax stability 	<ul style="list-style-type: none"> ▶ Tax credits 	<ul style="list-style-type: none"> ▶ VAT reimbursement ▶ Accelerated depreciation and certain exemptions 	<ul style="list-style-type: none"> ▶ Tax credits

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Software promotional regime

(Ley de Promoción de la Industria del Software)

Description of benefits

The Software Promotional Regime (Degree), set forth by Law 25.922 and extended by Law 26,692, comprises tax stability and several incentives and tax reductions. Under the Promotional Regime, companies that develop software receive the following benefits until December 2019:

- ▶ Tax benefits for taxpayers registering with the system
- ▶ Tax credit amounting to 70% of the social security contributions paid for the personnel related to the industry, which can be used to offset national tax liabilities (for instance, VAT). Such tax credits may only be used to offset income tax liabilities in proportion to the export activities carried out by the company
- ▶ Sixty percent reduction in the income tax burden for each fiscal year, applicable to both Argentine source income and to foreign source income
- ▶ Exemption from VAT withholding or reverse withholding, which is an important advantage from a financial standpoint

The Decree establishes several requirements and clarifications for companies to receive the benefits detailed above.

Access to the Promotional Regime is gained via an application process.

Guidelines around incentive applications

The incentives are applicable for current and future investments. The Promotional Regime forms the National Registry of Software Producers and Computer Services (Registry). Companies that comply with all the requirements must be registered with the Registry in order to receive the benefits. In this regard, Resolution N° 5/2014 was published on February 19, 2014, establishing the procedure and requirements in order for a company to join the Registry.

R&D promotional regime

(Promoción y Fomento a la Innovación Tecnológica)

Description of benefits

Law 23.877 provides for the granting of tax credits on investments in R&D. The regime is subject to an annual cap, is competition-based and tends to be small. Tax credits amount to 50% of qualifying investments in R&D. According to the Annual Budget for 2013, there is approximately US\$15 million allocated to the National Office for the Scientific and Technological Promotion (Agencia Nacional de Promoción Científica y Tecnológica), which is in charge of the administration of the fund that finances the R&D projects. This cap may increase or decrease for each year. The maximum financing cap for each project is approximately US\$500,000.

Guidelines around incentive applications

The incentives are applicable for current and future investments. The National Office for the Scientific and Technological Promotion holds an annual public submissions process within which file presentations detailing projects that are eligible to obtain fiscal credits. The presentation must contain the identification of the project, budget, innovation activities and information on the company applying.

Biotechnology promotional regime

(Promoción del Desarrollo y Producción de la Biotecnología Moderna)

Description of benefits

The biotechnology promotional regime (Law 26.270) grants early VAT reimbursement, accelerated depreciation and certain exemptions. A tax credit of 50% is available on the social security contributions payable to the payroll assigned to employees of the R&D project, and a tax credit of 50% is available on expenses related to R&D services provided by national scientific institutions.

Guidelines around incentive applications

The incentives are applicable for current and future investments. Those entities whose activities qualify as development and production of "modern biotechnology" (e.g., biology, biochemistry, microbiology and bioinformatics) must submit an application to the relevant authorities. The characteristics of each project should be analyzed on a case-by-case basis.

Training courses regime

(Régimen de crédito fiscal para los establecimientos industriales que tengan organizados cursos de educación técnica)

Description of benefits

Law 22.317 provides for the granting of tax credits on investments in training courses. The regime is subject to an annual cap, is competition-based and tends to be small. Tax credits amount to 0.8% of qualifying expenses (salaries) related to training courses. According to the Annual Budget for 2014, approximately US\$5 million is allocated to the INET (Instituto Nacional de Educación Tecnológica) to finance the training courses regime. The maximum financing cap for each project is approximately US\$35,000.

Guidelines around incentive applications

The incentives are applicable to current and future investments. Eligible entities must file their application(s) within a certain date range each year (for example between May and July for year 2014), together with an eligible educational entity. The exact deadline is confirmed each year. Projects are required to be filed at the INET, the entity in charge of approvals and rejections.

Eligibility requirements

Software promotional regime

Qualifying activities consist of the creation, design, development, production and implementation of software systems. In addition, at least of two of the following three conditions must be met:

- ▶ Incurrence of investigation and software development expenses
- ▶ Obtainment of quality standards applicable to software processes
- ▶ Performance of software exports

Discussions regarding the eligibility for the benefits depend on the type of project, and the eligibility of each project is decided by the authorities on a case-by-case basis.

R&D promotional regime

Qualifying expenses are those investments channeled through structures approved by the application authorities, such as collaboration associations. To be eligible, a project must entail investigation and development (i.e., it must deepen the knowledge of a certain scientific area or comprise the modernization of technologies in Argentina).

Biotechnology promotional regime

Qualifying activities are the development and production of modern biotechnology, and must be approved by government authorities. In particular, the accelerated depreciation applies to expenses incurred in obtaining capital goods, special equipment, parts or elements of said equipment acquired.

Training courses regime

Training activities must be duly approved by the application authority from the educational field.

IP and jurisdictional requirements

There are no specific jurisdictional requirements related to IP.

Technology or innovation zones

A Buenos Aires Technology District exists in the southern part of Buenos Aires. The Technology District has been designed to help technology companies and universities form a center for innovation, software development and the provision of IT services. Companies established in such a district can benefit from exemptions applicable to some local taxes of Buenos Aires, including turnover tax and stamp tax.

Role of governmental bodies in administering incentives

Software promotional regime

Once the correspondent form is filed, the Secretary of Industry will verify the fulfillment of the necessary requirements for subscription to the software promotional regime. Once those requirements are fulfilled, the Secretary will continue to issue the correspondent certificate.

R&D promotional regime

Once a project complies with the needed requirements, the National Office for the Scientific and Technological Promotion will consider the project as eligible and issue the corresponding certificate of tax credit.

Biotechnology promotional regime

Once an entity requests the benefits of the biotechnology regime, the authorities will decide whether a project is viable. If it applies to the regime, the project will be subscribed at the Ministry of Economy and Production (Registro Nacional para la Promoción de la Biotecnología Moderna) and the authorities will issue the corresponding certificate.

Training courses regime

INET administers evaluations and subsequent approvals and rejections of projects.

Administrative requirements

Application to each regime has its own requirements. Description of the corresponding projects and presentation business plans may be required. Certifications may be required in certain cases. In addition, the obtainment of tax credits and their utilization to cancel tax obligations requires the performance of certain steps with the tax authorities.

Statutory reference

- ▶ Software promotional regime (Law 25.922 – Year 2004)
- ▶ R&D promotional regime (Law 23.877 – Year 1990)
- ▶ Biotechnology promotional regime (Law 26.270 – Year 2007)
- ▶ Training courses regime (Law 22.317 – Year 1980)



Australia

Australia

This chapter is based on information current as of 15 March 2014.

EY contacts:

Jamie Munday
jamie.munday@au.ey.com
+61 2 9276 9087

Robin Parsons
robin.parsons@au.ey.com
+61 8 9429 2251

Overview

The Government introduced R&D incentives programs in order to encourage Australian industry to undertake R&D activities, putting in place an overall environment that supports the increased commercialization of new process and product technologies developed by eligible companies. The current R&D Tax Incentive regime has been in operation since 2011, superseding the previous R&D Tax Concession regime introduced in 1986.

Currently, a 45% refundable tax offset is available to eligible R&D entities with a turnover of less than A\$20 million per annum. A nonrefundable 40% tax offset is available for all other eligible R&D entities. Foreign-owned R&D may qualify for the 40% or 45% tax offset depending on its group turnover.

As part of the 2014 Federal Budget, the Australian Government announced its intention to reduce the offsets from 45% to 43.5% and from 40% to 38.5% respectively, with effect from 1 July 2014. These rate reductions are designed to match a corresponding reduction in the company tax rate from 30% to 28.5%. However, at the time this publication was drafted, these changes (including the company tax rate reduction) had not been enacted and additionally would require retrospective legislation.

2014 tax rates

Top corporate income tax rate (federal and state average)	30% ¹
Standard goods and services (GST) tax rate	10% ²

¹ Subsection 23(2) of the *Income Tax Rates Act 1986*.

² Section 4 of the *A New Tax System (Goods and Services Tax Imposition – General) Act 1999*.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D tax incentive
Types of incentives	<ul style="list-style-type: none"> ▶ Tax credits

R&D tax incentive

Description of benefits

- ▶ A 45% refundable tax offset is available for eligible R&D entities with a turnover of less than A\$20 million per annum.
- ▶ A nonrefundable 40% tax offset is available for all other eligible R&D entities.
- ▶ Foreign-owned R&D can qualify for the 40% or 45% tax offset depending on its group turnover.
- ▶ It has been proposed that from 1 July 2013 there will be an exclusion to the R&D Tax Incentive, whereby companies with aggregate assessable income of A\$20 billion or more would no longer be eligible to access the 40% nonrefundable tax offset. However, at the time of writing, this proposal had not yet been passed into law.
- ▶ Unutilized tax credits may be carried forward indefinitely.

Guidelines around incentive applications

The R&D Tax Incentive program is applicable to current investments. Claiming the benefit is a two-part process:

- ▶ The R&D activities are registered by lodging an application with AusIndustry.
- ▶ The R&D Tax Incentive schedule is lodged in the company tax return using a unique registration number from AusIndustry.

Companies are required to register eligible R&D activities within 10 months of the end of the income year in which the activities were conducted.

Eligibility requirements

Eligible R&D activities are categorized as either “core” or “supporting” R&D activities. Generally, only R&D activities undertaken in Australia qualify for the new R&D Tax Incentive program. Core R&D activities are broadly defined as experimental activities whose outcome cannot be known and which are conducted for the purpose of acquiring new knowledge. Supporting activities may also qualify if they are undertaken to directly support the core R&D activities. Exceptions that are required to pass a higher dominant purpose test are supporting R&D production trials and other “excluded” activities as defined. Software-related projects may also be core or supporting R&D activities unless their dominant purpose is one of internal administration, in which case it will be classified as an excluded activity. An additional eligibility test may apply.

Eligible expenditure is defined as expenditure incurred by an eligible company during an income year, including contracted expenditure, salary expenditure and other expenditure directly related to R&D. Core technology, interest expenses, some plant and equipment costs, and feedstock costs are not eligible.

Eligible companies are those incorporated in Australia or foreign companies resident in a country that has a double taxation treaty with Australia carrying on business through a permanent establishment in Australia. An entity whose entire income is exempt from income tax is not eligible. No industry sectors are specifically excluded.

IP and jurisdictional requirements

Generally, companies must demonstrate that R&D activities are undertaken on their own behalf in order to claim the incentive. Activities conducted by the R&D entity for one or more foreign corporations that are related to the R&D entity (called foreign-owned R&D) may qualify for the R&D tax incentive provided the R&D contract arrangement is undertaken with a company resident in a country with which Australia has a double taxation agreement. Eligibility of work performed outside the country requires preapproval through an Overseas Finding Application. The IP regimes are effective as of 1 July 2011.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Australia.

Role of governmental bodies in administering incentives

The R&D Tax Incentive operates on a self-assessment basis and is jointly administered by the Australian Taxation Office (ATO) and AusIndustry. AusIndustry regulates and monitors compliance activities in the assessment of the technical eligibility of activities, while the ATO regulates and undertakes compliance activities in relation to notional deductions and correlated tax offsets

Administrative requirements

Companies must register annually with AusIndustry within 10 months of the relevant corporate financial year-end. Also an advance finding ruling process is available, which enables companies to seek certainty on project. This provides companies with eligibility certainty for a period of up to three years.

Companies must maintain contemporaneous records in order to substantiate their R&D Tax Incentive claim. The company's records must be sufficient to show that the claimed activities took place and that they meet all aspects of the definition for either core or supporting R&D activities.

Statutory reference

- ▶ Statutory reference – Division 355
- ▶ Year of statutory regime – 1 July 2011



Austria

Austria

This chapter is based on information current as of 15 March 2014.

EY contacts:

Walter Baumann
walter.baumann@at.ey.com
+43 1 211 70 1275

Michael Obernberger
michael.obernberger@at.ey.com
+43 1 211 70 1381

Overview

The Austrian Government maintains a positive attitude toward the R&D incentives regime, and the policy of tax-based research subsidies in Austria has been in a state of flux for several years.

Austria promotes R&D activities with relatively generous tax incentives. In general, Austria spends about 2.81% of its GDP on R&D investment, higher than the average R&D investments in the 27 EU Member States.¹ As of 2012, an estimated €574 million in research subsidies was paid out to businesses.² The 2011 budget legislation and the 2012 stability act once again fundamentally restructured tax-based research subsidies.

The Austrian Tax Authorities offer a 10% subsidy of qualifying R&D expenses – Forschungsprämie (see below).

The Austrian Research Promotion Agency offers R&D incentives for qualifying R&D expenses in forms of cash, loans and guaranties. The percentage of the R&D premium varies depending on the types of R&D activities, and it may increase to 20% or higher for SMEs, highly innovative projects, or projects in which several companies cooperate with R&D institutions. For a basic research project, the R&D premium may be up to 100%. R&D premiums are also available through the nine local districts in Austria. In addition, the European Commission's Horizon 2020 program is available in Austria.

2014 tax rates

Top corporate income tax rate (federal and state average)	25% ³
Standard VAT rate	20% ⁴

¹ Statistics Austria, April 2013.

² Ibid.

³ "2014 Global tax policy outlook," EY website, www.ey.com/GL/en/Services/Tax/International-Tax/2014-tax-policy-outlook-Austria.

⁴ Austrian Federal Ministry of Finance, April 2013.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D premium	Grants by the Austrian Research Promotion Agency	Grants by Austria's nine federal states
Types of incentives	<ul style="list-style-type: none"> ▶ Tax credit 	<ul style="list-style-type: none"> ▶ Cash grants ▶ Loans ▶ Guarantees 	<ul style="list-style-type: none"> ▶ Cash grants ▶ Loans ▶ Guarantees

R&D premium

(Forschungsprämie)

Description of benefits

The subsidy of 10% is granted for qualifying R&D expenses incurred by SMEs and large businesses. Companies are entitled to the subsidy whether it is in tax loss or profit positions. The subsidy is paid by the Austrian tax authorities immediately after the approval of the Austrian Research Promotion Agency (FFG, Forschungsförderungsgesellschaft) in the form of a cash payment to the tax account. This credit is transferrable to any bank account.

Companies are eligible for two types of subsidies:

- ▶ In-house research subsidies
- ▶ Subsidies for outsourced (external or subcontracted) research; the sponsor receives a subsidy for ordering R&D activities

In-house research

In-house research subsidies are available to domestic companies conducting research activities internally. The amount of subsidies for in-house research is not capped, and companies are eligible for subsidies of 10% (previously 8%) of the qualifying R&D expenses. The incentive is provided in three stages.

Stage one: Meeting the minimum requirement

Companies claiming in-house research subsidies are required to receive FFG's approval after the end of the fiscal year. At this stage, companies are not provided with any legal certainty on

their calculated base for the tax credit, only on whether the R&D activities meet the required criteria. The tax office provides its approval after FFG reviews the application.

If companies want a higher degree of legal certainty at the earlier stage, they need to submit applications on the following requirements from the tax office (in cooperation with FFG):

- ▶ A confirmation of research
- ▶ A notice of determination

Stage two: Obtaining legal certainty

During this stage, the tax office (in cooperation with FFG) issues a notice containing a binding ruling that the criteria for receiving tax credits for R&D activities are met. The confirmation by the tax office provides a greater degree of legal certainty, and the required fee payable to the tax office amounts to €1,000.

Stage three: Receiving greatest possible legal certainty

The confirmation of research does not contain a ruling on the amount of the assessment base. The question of the amounts of the assessment base is more often picked up within the scope of tax field audits. To clarify the base for an R&D incentive, companies may apply for a notice of determination from the Austrian tax authorities which enables the company to obtain legal certainty. To apply for such a notice of determination, companies must also submit confirmation from an auditor on the correct calculation of the assessment base.

Subsidies for outsourced research

If a company does not conduct research itself but instead outsources the R&D activity to a third party (e.g., company or university), the company is eligible for subsidies for outsourced research amounting to 10% of the expenses up to a total payment of €100,000 (for a base amount of €1 million). For outsourced research, there is no limitation on the location of the R&D activities, and the activities may be performed outside Austria but must be performed within the European Union (EU) or European Economic Area (EEA). Therefore, companies may engage a foreign company to conduct R&D activities, provided that it is domiciled in the EU/EEA. A further prerequisite is that the contractor must not be under the controlling influence of the hiring company. In addition, there should not be any tax group in place as defined by Section 9 of the Austrian Corporate Income Tax Act between the hiring company and the contractor.

This incentive benefits SMEs that do not conduct their research in-house. Companies do not need to apply for an appraisal by FFG for subsidies for outsourced research.

Guidelines around incentive applications

The R&D premium is eligible to retroactive, current and future investments. Claims should be made between the end of the fiscal year and the date where the tax assessment of this year obtains legal force. Incentives are claimed with the tax return, and companies are required to enclose an additional form (Form E 108c) to claim the incentive. It is possible to apply for a binding ruling on the criteria for content being met. Particularly in the case of projects spanning several years, companies are recommended to obtain confirmation in advance about meeting required criteria for obtaining tax credits. The prerequisite is an ex-ante appraisal by FFG.

Grants by the Austrian Research Promotion Agency

(Förderung der Forschungsförderungsgesellschaft)

Description of benefits

This Governmental agency provides cash grants, guaranties, loans and advisory services. The amount granted varies, depending on the development phase and kind of project, business and subject area. The grants must be in compliance with the EU guidelines on state funding.

Guidelines around incentive applications

The incentive is applicable for future investments. The application must be submitted to the FFG prior to the start of the project. Depending on the kind of incentive, there are also periods with specific application deadlines.

Grants by Austria's nine federal states

(Förderungen der Bundesländer)

Description of benefits

The nine federal states in Austria provide cash grants. The amount granted varies depending on the development phase and kind of project, business and subject area. The grants must be in compliance with the EU guidelines on state funding.

Guidelines around incentive applications

The incentive is applicable for future investments. The application has to be submitted to the agency of the federal state in charge prior to the start of the project. Depending on the kind of incentive, there are also periods with specific application deadlines.

Eligibility requirements

Expenses should be incurred for research and experimental development performed on a systematic basis and applying scientific methods (using the Frascati Manual definition of research, according to OECD guidelines).

The FFG acts as an appraiser in the subsidies-awarding process. It reviews whether the criteria of the Frascati Manual (OECD guidelines) definition of research are met in terms of content. The FFG does not, however, review the correctness of the assessment base. The appraisal is not binding on the tax office. According to the tax authorities, the involvement of FFG will not create any costs.

The following expenses are part of the taxable base (as long as all of these expenses are related to R&D):

- ▶ Salary and wages
- ▶ Direct expenses
- ▶ Financial expenditures
- ▶ Overhead costs

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Austria.

Role of governmental bodies in administering incentives

The European 2020 strategy focuses on intelligent, sustainable and socially integrated growth, effectively meaning that the science and research policies are not isolated areas; rather, they take a leading role on future site developments. To achieve this goal, the domestic federal and state institutions work closely together to assure that the tax money is invested carefully. In this context, the Federal Ministry of Science and Research is the hub and acts as a political mediator between the involved European, national and regional parties and other institutions.

Regarding the R&D premium, the FFG evaluates/approves that the R&D activities meet the required criteria, then the Austrian tax authorities shall pay the tax credit in cash. So the FFG is the consultant with the required technical skills for the tax authorities. The FFG is 100% owned by the Austrian state. One of the main tasks of the FFG is management and financing of R&D projects. However, Austria's nine federal states, not the FFG, manage their own grants.

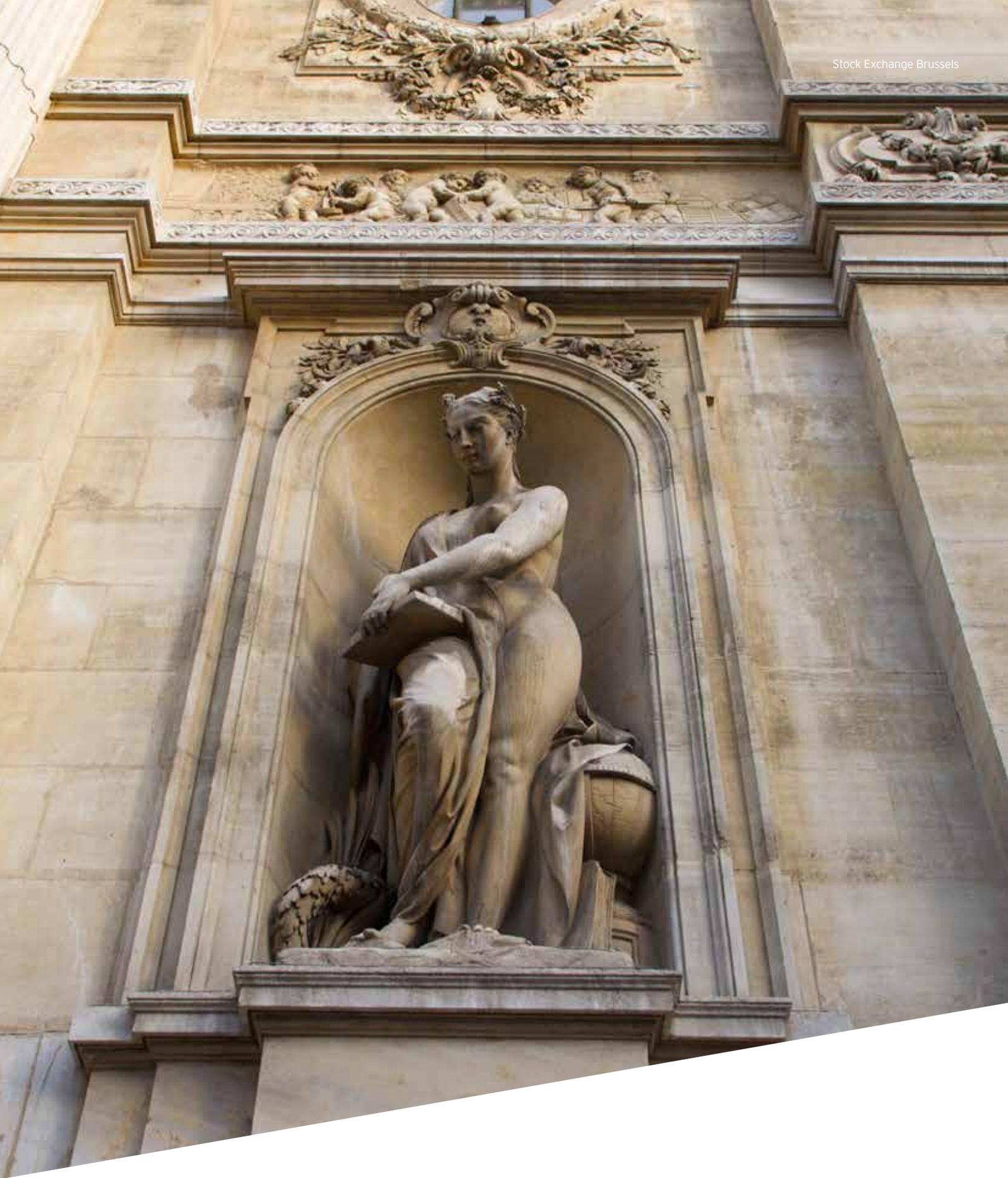
Administrative requirements

The prerequisite for the statutory tax credit is the appraisal by FFG, in which the institution reviews whether all qualitative prerequisites according to §108c par. 7 and 8 of the Income Tax Act are fulfilled. The appraisal may be requested for free via FinanzOnline, the official website of the federal Ministry of Finance concerning all kinds of financial issues. Companies applying are obliged to quote all expenses occurring with regard to R&D within the fiscal year.

If the company has already received a valid appraisal by FFG for stage two of the in-house approach (confirmation of research), it is not required to request another appraisal for the same project, so long as it conducts R&D in the same manner as before.

Statutory reference – R&D premium

- ▶ Cash grant: §108c of the Income Tax Act
- ▶ (Advanced) Confirmation of research: §118a BAO (federal tax regulations)



Belgium

Belgium

This chapter is based on information current as of 15 March 2014.

EY contacts:

Steven Claes

steven.claes@be.ey.com

+32 2 774 94 20

Hendrik Serruys

hendrik.serruys@be.ey.com

+32 3 270 1468

Max Van den Bergh

max.van.den.bergh@be.ey.com

+32 2 774 90 47

David Gay

david.gay@be.ey.com

+32 3 270 45 84

Kris Opdedrynck

kris.opdedrynck@be.ey.com

+32 9 242 52 73

Overview

The Belgian Government is a strong supporter of R&D and innovation at both the federal and regional levels, using R&D tax incentives and direct R&D grants to support these activities. In particular, Belgium offers investors a very attractive and comprehensive regime for R&D activities and the management of intellectual property. The incentives are:

- ▶ The patent income deduction (PID), which provides for an 80% tax exemption of gross patent income, resulting in a maximum 6.8% effective tax rate
- ▶ The R&D investment deduction and the equivalent R&D tax credit, for qualifying investments in R&D and patents
- ▶ The partial exemption of 80% of withholding tax for employing scientific researchers, engineers or other innovative personnel
- ▶ Incentives to employ highly qualified foreign employees
- ▶ Direct cash grants and subsidies to R&D and innovation projects

These incentives have been in place for a significant period of time. The IP regime is mature as Belgium was one of the first European countries to introduce an incentive related to the income derived from patents.

2014 tax rates

Corporate income tax rate	33.99% ¹
Standard VAT rate	21% ²

¹ Article 215 of the Belgian Income Tax Code 1992 – actual data. Lower rates are applicable for small and medium enterprises under certain conditions.

² Article 37 of the VAT Code juncto Article 1 of the Royal Decree nr. 20 of 20 July 1970.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input checked="" type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input checked="" type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other (notional interest deduction)	<input checked="" type="checkbox"/>

Incentives available

Names of incentives	Cash grants	Loans	Investment deduction for R&D and patents	Tax credit for R&D and patents	Patent income deduction (PID)*	Notional interest deduction (NID)	Foreign withholding tax credit for royalties received	Partial exemption of professional withholding tax*
Types of incentives	▸ Cash grants	▸ Loans	▸ Super deduction	▸ Tax credit	▸ Tax deduction	▸ Tax deduction	▸ Tax credit	▸ Income tax withholding incentive

* Although not based upon scientific analysis, EY clients report that these incentives deliver the most beneficial results to investors.

Cash grants

(IWT Bedrijfssteun voor onderzoek en ontwikkeling (Dutch)/Prime de recherche industrielle et prime pour le développement expérimental (French))

Description of benefits

Cash grants are provided by the regions (i.e., Flanders, Wallonia and Brussels). In general, the cash grants regime supports 25% to 80% of the eligible R&D costs. These grants may be provided in addition to tax incentives, and taxpayers may claim tax incentives and cash grants simultaneously. Although such grants are included in a company's taxable basis, they are exempt from corporate income tax. Taxpayers are required to obtain a preapproval (via an application for a specific project) in order to receive cash grants.

Guidelines around incentive applications

Cash grants are applicable to current and future investments or activities. An application for the grant should be submitted to the responsible government agency. The grant application is required to be submitted before the start of the R&D project(s). Costs are eligible for funding only after the application has been submitted.

Loans

Description of benefits

In the Flemish Region, the Flemish Innovation Fund (Vinnof) offers subordinated loans with attractive terms and conditions to entrepreneurs. Vinnof mainly focuses on innovative start-up companies by providing "seed capital." Taxpayers are required to obtain a preapproval in order to receive the subordinated loans.

The Walloon and Brussels Regions offer recoverable advances (avance récupérable) to entrepreneurs. The support is provided for experimental development projects, such as the design and completion of prototypes or pilot plants and the further development stages leading to commercialization.

Guidelines around incentive applications

The subordinated loans and recoverable advances are applicable to current and future investments or activities. An application for the loan should be submitted to the responsible government agency. For future projects, the grant application is required to be submitted before the start of the R&D project(s). Costs are eligible for the loans/grants only after the application has been submitted.

Investment deduction for R&D and patents

(De investeringsaftrek voor onderzoek en ontwikkeling (Dutch)/
La déduction pour investissement en matière de recherche et développement (French))

Description of benefits

The investment deduction for eligible R&D activities and patents entitles a Belgian company or a Belgian branch of a foreign company to apply a deduction in addition to the annual depreciation expense of qualifying assets. The investment deduction may be calculated either as a percentage on the acquisition value of the qualifying asset ("one-shot" deduction) or as a percentage on the annual depreciation amount, in which case the investment deduction is spread over the depreciation period ("spread" deduction). The one-shot deduction amounts to 13.5% (for tax year 2015, i.e., income year 2014) of the acquisition value of the asset. The spread deduction amounts to 20.5% (for tax year 2015, i.e., income year 2014) of the depreciation amount. If the increased investment deduction exceeds the taxable basis, the excess balance may be carried forward without any time restriction.

The investment deduction applies to:

- ▶ Tangible and intangible fixed assets used for R&D of new products and technologies that do not have a negative impact on the environment (green investments), including R&D expenses capitalized under Belgian GAAP
- ▶ Patents (one-shot deduction only)

Guidelines around incentive applications

The investment deduction is applicable to current and future investments. The incentive may be claimed in the corporate income tax return. Form 275U also needs to be enclosed to the corporate income tax return together with other documents substantiating the form in order to claim the investment deduction. The incentive should be claimed in the year in which the investment takes place.

Tax credit for R&D and patents

(Het belastingkrediet voor onderzoek en ontwikkeling (Dutch)/Le crédit d'impôt pour recherche et développement (French))

Description of benefits

As an alternative to the investment deduction, companies may instead opt for a tax credit that is deductible from the corporate income tax due. The tax credit is equal to the investment deduction multiplied by the standard corporate tax rate of 33.99%. Therefore, although the calculation is different, the advantage is equivalent. The tax credit may also be calculated either as a one-shot credit or spread over the depreciation period. Excess tax credit is carried forward, and the remaining balance after five years is refunded, which may result in a cash benefit.

The tax credit applies to:

- ▶ Tangible and intangible fixed assets used for R&D of new products and technologies that do not have a negative impact on the environment (green investments), including R&D expenses capitalized under Belgian GAAP
- ▶ Patents (one-shot credit only)

Guidelines around incentive applications

The tax credit is applicable to current and future investments and may be claimed in the corporate income tax return. Form 275U is also required to be enclosed to the corporate income tax return together with other documents substantiating the form in order to claim the tax credit. The tax credit should be claimed in the year in which the investment takes place.

Patent income deduction (PID)

(De aftrek voor octrooi-inkomsten (Dutch)/La déduction pour revenus de brevet (French))

Description of benefits

The PID is an incentive allowing companies, irrespective of their size or industry, to deduct 80% of their gross patent income from their taxable basis, reducing the effective tax rate on such income to a maximum of 6.8% (i.e., 20% of the Belgian statutory corporate income tax rate of 33.99%). Capital gains realized on the transfer or disposal of patents are not included in the gross patent income. Other protected intellectual property such as trademarks, brands and designs do not qualify. Further details on the PID is provided in the 'IP and jurisdictional requirement' section.

Guidelines around incentive applications

The PID is applicable to current and future investments and is claimed in the corporate income tax return. Form 275P needs to be enclosed to the corporate income tax return in order to claim PID.

Notional interest deduction (NID)

(De aftrek voor risicokapitaal (Dutch)/La déduction pour capital à risque (French))

Description of benefits

The NID is a unique tax incentive allowing companies, irrespective of their size, industry or activities, to deduct a percentage (2,630% for tax year 2015) of their equity from their taxable income. As a result, the NID reduces the effective tax rate, in particular for companies engaged in equity-intensive activities such as R&D.

Guidelines around incentive applications

The NID is applicable to current and future investments and is claimed in the corporate income tax return. Furthermore, form 275C needs to be enclosed to the corporate income tax return.

Foreign withholding tax credit (FTC) for royalties received

(Het forfaitair gedeelte van de buitenlandse belasting (Dutch)/La quotité forfaitaire d'impôt étranger (French))

Description of benefits

The FTC is for foreign withholding tax on royalties of 15/85 of net income at the border. It is creditable against the corporate income tax due (no basket approach). The FTC is limited to the actual withholding taxes paid on qualifying income in case of the application of the PID.

Guidelines around incentive applications

The FTC is claimed in the corporate income tax return; however, there is no special form to be enclosed.

Partial exemption of professional withholding tax

(Vrijstelling doorstorting bedrijfsvoorheffing (Dutch)/Exonération du précompte professionnel (French))

Description of benefits

An 80% exemption of professional withholding taxes on wages paid to specific personnel with a PhD or master degree in the scientific or engineering domain (i.e., sciences, applied sciences, exact sciences, medicine, pharmaceutical sciences, engineering, IT, architectures, product development, etc.) employed in a R&D program is available.

Guidelines around incentive applications

The incentive is applicable to current and retroactive investments. Withholding tax exemption may be claimed back for a maximum of five prior income years. A tax claim should be filed together with a corrective withholding tax return. For the current income year, the exemption may be claimed directly via monthly withholding tax returns. Due to the revised income tax law beginning for income year 2014, the implementation of the withholding tax exemption will require preapproval from the Federal Science Department. New R&D projects should be registered (notification procedure) as from 2014, and existing (2013) projects should be registered as from 2015.

Expat regime – tax-free allowances for foreign executives and researchers

(Gunstregime voor buitenlandse kaderleden en onderzoekers (Dutch)/
Expatriates: le régime fiscale applicable (French))

Description of benefits

Companies employing foreign executives and researchers who temporarily work in Belgium may benefit from a special tax regime. A person who is classified as a foreign executive or researcher is considered to be a nonresident in Belgium from a tax point of view and, consequently, is taxed only on his or her income relating to professional activities carried out in Belgium. Moreover, certain expense allowances (called expatriate allowances) that relate to the temporary nature of the employment in Belgium are fully exempt. The standard maximum amount of this type of allowance is €11,250 per year, but for researchers the exemption is increased to a maximum of €29,750 per year.

The increased exemption applies to “scientific research centers and laboratories, Belgian or foreign institutions (public or private) or autonomous departments of Belgian or foreign companies or of Belgian establishments of foreign companies whose activity consists solely of scientific or technical research in any field.” It is automatically applicable when the expat regime is granted.

Guidelines around incentive applications

The incentive is applicable to current and future investments.

Eligibility requirements

Cash grants

Eligible entities

- ▶ All Belgian resident entities are subject to Belgian corporate income tax.
- ▶ Belgian branches of nonresident entities are subject to nonresident Belgian corporate income tax.
- ▶ Any enterprise, from an SME to the Belgian branch of a multinational company, may request funding under the condition that the enterprise has a legal personality upon signing the agreement. Furthermore, the enterprise should have the capacity to exploit the result to a sufficient extent in the region providing the grant and hence create enough economic impact in the form of employment and investments. However, this does not exclude the possible partial application of the project results abroad.
- ▶ Some categories of cash grants are restricted to small and medium-sized entities (SMEs).

Eligible R&D expenses

- ▶ Payroll costs of the employer
- ▶ Direct and indirect costs relating to the R&D project
- ▶ Large costs for instruments, equipment and other items specifically required for the R&D project
- ▶ Large subcontracting costs

Loans

Eligible entities

- ▶ All Belgian resident entities subject to Belgian corporate income tax.
- ▶ Belgian branches of nonresident entities subject to nonresident Belgian corporate income tax.

Eligible activities/R&D expenses

- ▶ Payroll costs of the employer
- ▶ Direct and indirect costs relating to the R&D project
- ▶ Large costs for instruments, equipment and other items specifically needed for the R&D project
- ▶ Large subcontracting costs

Investment deduction (or tax credit) for research and development and patents

Eligible entities

- ▶ All Belgian-resident entities subject to Belgian corporate income tax
- ▶ Belgian branches of nonresident entities subject to nonresident Belgian corporate income tax

Eligible investments

- ▶ Tangible and intangible assets used for R&D of new products and technologies that do not have a negative impact on the environment, including R&D expenses capitalized under Belgian GAAP
- ▶ Patents

Conditions to be met

- ▶ The investment should relate to new assets, which may be either acquired or self-developed.
- ▶ The investment should be used solely for professional business purposes.
- ▶ The investment must be capitalized under Belgian GAAP and should be depreciated over at least three years.
- ▶ In principle, the right to use the asset concerned may not be transferred to a third party.
- ▶ In principle, there should be an R&D center.

PID

Eligible entities

- ▶ All Belgian-resident entities subject to Belgian corporate income tax
- ▶ Belgian branches of nonresident entities subject to nonresident Belgian corporate income tax

Eligible patents

- ▶ Patents fully or partly self-developed by Belgian companies (or branches of foreign companies), either in R&D centers in Belgium or abroad
- ▶ Patents acquired or licensed from related or unrelated parties, provided they are "improved" in R&D centers in Belgium or abroad (independent of whether such improvements lead to additional patents)
- ▶ The R&D center, through which patents have to be developed or further improved, should qualify as a division capable of operating autonomously. The PID is not restricted to Belgian patents. European patents, US patents or patents valid in other jurisdictions also qualify.

Eligible patent income

- ▶ The PID applies to income derived from the licensing of patents but is also applicable to patent income that is embedded in the sales price of a patented product or a service.

Partial exemption of professional withholding tax

Eligible entities

- ▶ All entities in Belgium with payroll structure

Eligible expenses

- ▶ Professional withholding tax paid via Belgian payroll

Eligible activities

- ▶ All activities in scope of the OECD "Frascati" description of research and development. Also available to outsourcing activities.
- ▶ As from 2014 all activities in scope of the Commission Regulation 5EC, No 800/2008, under the description of "fundamental research", "technical research", and "experimental development" (issued on of 6 August 2008).³

³ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:214:0003:0047:en:PDF>

IP and jurisdictional requirements (PID)

Effective date

The PID is applicable to patents and additional protective certificates, as well as products, processes or services protected under a patent and know-how substantially connected to patents that have not been commercialized prior to 1 January 2007. However, patents may have been granted or acquired before that date.

Qualifying IP

- ▶ The PID is applicable to patents and additional protective certificates, as well as know-how substantially connected to patents.

Types of income

- ▶ The PID applies to income derived from the licensing of patents (i.e., royalties) and to patent income that is embedded in the sales price of a patented product or a service. If a company generates excess PID, the latter can be offset against any other taxable income (no basket approach).
- ▶ Capital gains realized on the sale or disposal of patents fall outside the scope of the PID.

Calculation of income

- ▶ For patents that are licensed to related or unrelated parties, the tax deduction is equal to 80% of the gross (arm's length) royalty income received but is taken against the company's net income (i.e., after depreciation expenses, interest expenses, wages, R&D expenditure, etc.). Therefore, the qualifying income is generally subject to an effective tax rate lower than 6.8%.
- ▶ In cases where patents are acquired or licensed, the depreciation expenses of license expenses incurred should, however, be deducted from the gross patent income before applying the 80% deduction in order to avoid a potential "double deduction."
- ▶ There is no cap, minimum threshold or recapture of previously deducted development costs.

Determination of embedded IP income

- ▶ For patents that are used in the production process of goods or the delivery of services, the tax deduction is equal to 80% of a deemed arm's-length royalty (i.e., a royalty that the company would have received had it licensed the patents used). This is generally determined via a transfer pricing analysis (potential approaches are deemed royalty, residual profit, etc.).

IP regime rate

- ▶ The PID provides for an effective tax rate on the qualifying income between 0% and 6.8%. The PID applies in addition to the deduction of incurred business expenses and other incentives. Any excess PID can be used to offset other current-year income.

May work be performed outside the country?

- ▶ Yes, the development (or the improvement) of a patent can be performed in an R&D center located in Belgium or abroad. Part of the development of the patent can also be outsourced to related or unrelated subcontractors.

Must the IP be registered/owned locally?

- ▶ The PID is not restricted to Belgian patents only. European patents, US patents or patents valid in other jurisdictions qualify as well.
- ▶ The PID can be claimed on the basis of full ownership of a patent or usufruct, as well as on the basis of a patent license.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Belgium.

Role of governmental bodies in administering incentives

Cash grants

Each region has its own cash grant program, of which the responsible government agencies are:

- ▶ Flemish region: Agency for Innovation by Science and Technology, IWT – www.iwt.be
- ▶ Walloon region: Walloon Public Service, Operational DG for Economy, Employment & Research, DGO6 – www.recherche-technologie.wallonie.be
- ▶ Brussels region: Brussels Institute for Research and Innovation, Innoviris – www.innoviris.be

Loans

An application should be submitted to the competent agency:

- ▶ Flemish region: Participatie Maatschappij Vlaanderen – www.pmv-kmo.be
- ▶ Walloon region: Walloon Public Service, Operational DG for Economy, Employment & Research, DGO6, www.recherche-technologie.wallonie.be
- ▶ Brussels region: Brussels Institute for Research and Innovation, Innoviris, www.innoviris.be

Investment deduction (or tax credit) for R&D and patents

In order to apply investment deduction (or tax credit) for R&D and patents, companies should obtain a certificate confirming that the investments do not have a negative impact on the environment. These certificates are issued by the one of the competent authorities (depending on where in Belgium the company is located):

- ▶ Flemish region: www.energiesparen.be or www.lne.be
- ▶ Walloon region: www.energie.wallonie.be or www.environnement.wallonie.be
- ▶ Brussels region: or www.bruxellesenvironnement.be

The other incentives are automatically applicable (application via corporate income tax return schedules).

General

Various organizations provide advice and guidance to those wishing to start (or expand) their activities in Belgium. Foreign companies may contact the Service for Direct Investments. Contact is possible via the following websites:

- ▶ Invest in Belgium: www.ib.fgov.be
- ▶ Flemish region: www.investinlanders.be
- ▶ Walloon region: www.investinwallonia.be
- ▶ Brussels region: www.investinbrussels.com

There are also various industry federations. Essencia, an umbrella organization, represents the chemicals and life sciences industry. Pharma.be, or the Belgian Pharmaceutical Industry Association, represents the country's pharmaceutical interest. Bio.be is the Belgian association for bioindustries, aiming to develop a climate for companies to expand their businesses, make new investments and have access to markets. At a regional level, there are bodies that support the biotechnology and life sciences sectors, such as FlandersBio and BioWin.

Administrative requirements

Cash grant and loans

- ▶ Applications for cash grants are required to be filed in advance of the R&D project commencing. Taxpayers may claim tax incentives and cash grants; however, applications for each project are required to be filed separately. The different grants offered by the regions in Belgium to support and stimulate R&D projects may take the form of direct cash grants, recoverable advances or interest rebates. Although such grants are included in a company's taxable basis, they are exempt from corporate income tax.

Investment deduction (or tax credit) for R&D and patents

- ▶ Corporate income tax return schedules (an advance tax ruling from the tax authorities is possible)
- ▶ Certificate from regional authorities regarding environmental impact (see Role of government bodies in administering incentives above)

PID

- ▶ Corporate income tax return schedules
- ▶ Advance tax ruling from tax authorities recommended (in particular in case of embedded patent income)

NID

- ▶ Corporate income tax return schedules (an advance tax ruling from the tax authorities is possible)

Foreign withholding tax credit for royalties received

- ▶ Corporate income tax return schedules

Partial exemption of withholding tax

- ▶ Upfront application on current remuneration

Statutory reference

Investment deduction (or tax credit) for R&D and patents

- ▶ Investment deduction: Article 68 of the Belgian Income Tax Code (ITC) and following
- ▶ Investment credit: Article 289 quater ITC and following
- ▶ Mature regime

PID

- ▶ Article 205/1 – 205/4 ITC
- ▶ Mature regime
- ▶ Changes to be expected in the future that would further simplify the regime and broaden the scope of the eligible IP

NID

- ▶ Article 205 bis – 205 novies ITC
- ▶ Mature regime

Foreign withholding tax credit for royalties received

- ▶ Article 285 ITC and following
- ▶ Mature regime



Brazil

Brazil

This chapter is based on information current as of 15 March 2014.

EY contacts:

Eneas Moreira
eneas.moreira@br.ey.com
+55 11 2573 3117

Edgard Oliveira
edgard.c.oliveira@br.ey.com
+55 11 2573 3539

Overview

The Brazilian Government has been a strong supporter of R&D activities in various segments in Brazil. At the end of 2005, the Government created a tax incentive for R&D, which commenced in 2006. Currently, the Government offers super deductions of 160% to 200% to taxpayers with eligible R&D expenses, financial support to new R&D investments and accelerated depreciation on qualifying R&D assets. Through the R&D incentives, the Government attempts to achieve technological innovation, product innovation and enhanced R&D activities.

“Technological innovation” refers to the design of a new product or manufacturing process and addition of new functionalities or characteristics to the product or process that leads to incremental improvements and an effective quality or productivity gain. “Product innovation” refers to the improvement of new and/or existing products in the domestic or international markets. “Enhanced R&D activities” refers to basic research, applied research, experimental development, basic industry technology and technical support services.

2014 tax rates

Top corporate income tax rate (federal only)	34% ¹
Standard VAT (ICMS) rates:	
▶ ICMS rate for transactions within a state	17%-19%
▶ ICMS rate on interstate transactions	4%-12% ²
Federal VAT (IPI) rates	0%-20% ³
Federal social contributions (VAT-type taxes) on revenues (PIS/COFINS)	3.65%-9.25% ⁴

¹ Article 3, Law 9,249/1995, and Article 3, Law 7,689/1988.

² Each state determines its respective ICMS rates.

³ Decree 7,660/2011. Higher rates are applied on luxury or superfluous goods.

⁴ Article 2, Law 10,637/2002, and Article 2, Law 10.833/2003.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D deduction*	Accelerated depreciation	Funding Authority for Studies and Projects
Types of incentives	► Super deduction	► Accelerated depreciation on qualifying R&D assets	► Financial support

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D deduction

(Inovação Tecnológica)

Description of benefits

A super deduction of 160% to 200% is available to taxpayers with eligible expenses. If a company has additional researchers compared to the previous year, it may apply for the extra deduction (from 160% to 180%). In addition, if a company registers IP in Brazil, an extra 20% deduction is available. The R&D deduction is applicable to expenses incurred by Brazilian entities and contract research or greenfield investments are not normally eligible. Unutilized R&D deductions may not be carried forward or carried back. In order to receive the R&D deduction, taxpayers are required to present Tax Clearance Certificates to the tax authorities, however, no preapproval process is required in order to obtain the R&D deduction.

Taxpayers can also receive a reduction on IPI, Imposto sobre Produtos Industrializados (federal excise tax), for eligible R&D activities. Under the IPI reduction, 50% reduction is available on the IPI levied on instruments, equipment, machinery, apparatus and tools imported by Brazilian companies or dedicated to R&D activities performed in Brazil. In order to receive the IPI reduction, taxpayers are required to claim the incentive upon requesting the acquisition.

Guidelines around incentive applications

The R&D deduction is applicable for current year investments; for example, if a company has R&D expenses in 2013, they may apply for the incentive considering expenses occurred from January to December of 2013. The R&D deduction is claimed in the income tax return; for instance, expenses occurred in 2012 should be claimed on the tax return delivered to the Brazilian IRS (Receita Federal do Brasil), in 2013.

Accelerated depreciation

(Depreciação Acelerada)

Description of benefits

R&D legislation allows the companies to accelerate the depreciation on R&D assets for tax purposes only. Depreciation of 100% is available on eligible R&D assets in the year of their acquisition.

Guidelines around incentive applications

Accelerated depreciation is applicable to current investments. The incentive is claimed in the income tax return; for instance, expenses occurred in 2012 should be claimed on the tax return delivered to Brazilian IRS in 2013.

Funding Authority for Studies and Projects

(Financiadora de Estudos e Projetos (FINEP))

Description of benefits

Financial support with reduced interest rates is available to new R&D investments of Brazilian companies. The fund provided by the Government can provide such funding for up to 90% of the total project costs. The incentive requires a preapproval process to be followed.

Guidelines around incentive applications

Financial support is applicable to current and future investments. In order to claim the incentive for future investments, taxpayers are required to follow procedures set out by the Government. In addition, taxpayers are also required to meet with specific requirements set by FINEP.

Eligibility requirements

Eligibility is not limited to a specific industry. Under Law No. 11.196/2005, technological innovation is defined as “the conception of a new product or production process, as well as the inclusion of new functionalities or characteristics in the product or process resulting in additional improvements, effective quality or productivity increase, as well as competitiveness increase in the market.”

Generally speaking, innovation activities eligible for tax benefits are related to scientific and technological stages adopted by taxpayers in the development and implementation of products and/or processes, resulting in productivity gain and incremental improvements. Qualifying expenses include payroll costs, materials, machines, equipment, raw materials for tests and some local expenses directly related to the R&D in Brazil. Third-party costs can also be considered; however, there are specific rules to follow in order to obtain the incentive.

IP and jurisdictional requirements

The IP must be registered and owned locally to obtain the increased R&D tax incentive of 20%. However, the company can apply for the R&D tax incentive locally without registering IP in Brazil.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Brazil.

Role of governmental bodies in administering incentives

The Ministry of Science, Technology and Innovation (MCTI) fulfills an important role in administering the incentives because it must approve and control the application of tax benefits by qualifying the applicable projects. Only MCTI has the appropriate skills to analyze the projects presented by companies. The Brazilian IRS maintains its audit role in relation to incentives with tax impact and may (or may not) investigate some accounting and fiscal aspects focused on the R&D incentives.

Administrative requirements

Only companies that adopt the methodology of “taxable profit” (Lucro Real) on a quarterly or annually basis may apply for the R&D tax incentive. The companies should fill out the income tax return annually in order to maintain compliance. Also, companies that apply for this incentive should have tax clearance certificates that are valid for the full period (January to December of the respective year). In addition, companies must annually complete a specific R&D form and submit it electronically to MCTI.

Statutory reference

- ▶ The Federal Law No 11.196 – year 2005
- ▶ Decree No. 5.798 – year 2006
- ▶ Normative Instruction No. 1.187 – year 2011



Canada

Canada

This chapter is based on information current as of 15 March 2014.

EY contact:

Susan G. Bishop
 susan.g.bishop@ca.ey.com
 1 416 943 3444

Overview

The federal Scientific Research and Experimental Development (SR&ED) program is a tax incentive program designed to encourage economic development and job creation in Canada. The SR&ED program is the largest source of federal funding for industrial R&D performed in Canada and is well regarded by business. The program is a tax incentive program (as opposed to a grant program) and is demand driven. There is no ceiling on how much the Government may pay out to claimants in any particular year.

Legislation governing the program is contained in the federal Income Tax Act and Income Tax Regulations and, is therefore the responsibility of the Department of Finance. However, the Canada Revenue Agency (CRA) is responsible for the program's administration. In recent years, the CRA has been working on administrative improvements directed at simplifying the claim process, increasing the scientific capacity of the program and improving consistency with respect to processing SR&ED claims across the country.

The federal Government has provided tax assistance for R&D since 1944. Although investment tax credits (ITCs) were introduced for SR&ED expenditures in 1977, the program as it exists today was developed in the 1980s.

2014 tax rates

General corporate income tax rate (federal/provincial/territorial average)	27.59% ¹
Standard VAT rate (federal/provincial/territorial average)	5% to 15% ²

¹ EY Canada corporate tax rates as of June 2013. The federal rate on general income is 15%, and the provincial/territorial rate on general income ranges from 10% to 16%, resulting in a combined federal-provincial average tax rate of 27.59%. The federal Government and the provincial and territorial governments may apply lower tax rates to active small-business income earnings and earnings derived from manufacturing and processing.

² EY Canada summary.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	SR&ED*	Accelerated capital cost allowance (CCA) rate and Manufacturing and Processing (M&P) Tax Credit
Types of incentives	► Tax credit	► Accelerated depreciation and tax credit on the R&D Asset

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

SR&ED

Description of benefits

A 20% federal tax credit is available on eligible activities and expenditures. This federal tax credit has decreased from 20% to 15% for taxation years ending after 2013 and will be prorated for taxation years straddling 1 January 2014. The credit rate remains at 35% for small Canadian-controlled private corporations (CCPCs) on the first CAD\$3 million of expenditures per year. CCPCs in general must be private corporations, resident in Canada and not controlled directly or indirectly by one or more nonresident persons or public corporations. The 35% credit is 100% refundable for non-capital-related expenditures and 40% refundable for capital expenditures. The CAD\$3 million expenditure limit is reduced where the preceding year's taxable income for the corporation and associated corporations exceeds a threshold linked to the maximum small-business deduction business limit for the year and where the taxable capital of the corporation (or associated group) for the preceding year exceeds CAD\$10 million. In addition, the annual expenditure limit must be shared among associated corporations. Unused R&D tax credits may be carried forward to 20 years and carried back for 3 years.

For the provincial and territorial incentives, tax credits range from 4.5% to 37.5% depending on the provincial or territorial jurisdiction. The majority of provincial and territorial jurisdictions offer refundable credits.

Guidelines around incentive applications

SR&ED is applicable to retroactive and current investments provided they are claimed within 18 months of the fiscal year-end. To benefit from the SR&ED tax incentives, a claimant generally must carry on business in Canada in the year; perform eligible SR&ED work that is related to the business of the claimant; and complete and file Form T661, Scientific Research and Experimental Development Expenditures Claim, as well as Form T2SCH31 (Schedule 31), Investment Tax Credit – Corporations, or Form T2038 (IND), Investment Tax Credit (Individuals), as applicable. The reporting deadline is 12 months after the filing due date of the return for the fiscal period in which the expenditures were incurred.

Accelerated capital cost allowance (CCA) rate and Manufacturing or Processing (M&P) Tax Credit

Description of benefits

2013 was the last year in which certain R&D qualifying assets were eligible for immediate deduction and SR&ED tax credits under the SR&ED program. However, to the extent certain R&D assets are used in connection with a taxpayer's eligible manufacturing and processing activities these assets may be qualified for Class 29 property classification. Class 29 assets may be depreciated over a three-year period. The same assets may also qualify for federal and/or provincial manufacturing or

processing investment tax credits ranging from 5% to 10% (or more) of the qualifying expenditures. Certain R&D assets may be eligible for other accelerated depreciation property classes such as Class 50 computer hardware which has a 55% capital cost allowance/depreciation rate.

Guidelines around incentive applications

The opportunity for capital assets used in SR&ED activities to qualify for accelerated depreciation property classes (e.g., Class 29 and 50) is applicable to projects in current, prior and future years. A taxpayer may amend prior year corporate tax filings (i.e., revise capital asset classifications) to access classification opportunities to the extent the years are not statute barred. With respect to property that is eligible for M&P tax credits, the credits must be claimed by the taxpayer on their corporate tax returns (federal and/or provincial) within 18 months of the year the property was acquired.

Eligibility requirements

SR&ED is defined as a systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis that involves basic research, applied research or experimental development and includes work undertaken by or on behalf of the taxpayer with respect to engineering, design, operations research, mathematical analysis, computer programming, data collection, testing or psychological research where the work is commensurate with the needs and directly in support of the basic research, applied research or experimental development. The work must be undertaken in Canada. Qualifying SR&ED expenditures may include labor, materials consumed or transformed, subcontracts (SR&ED performed on taxpayer's behalf), leased equipment, other expenses directly related and incremental to the SRED, third-party payments and capital equipment. Subcontractor costs incurred after 31 December 2012 are reduced to 80%. Starting in 2014, lease and capital costs are no longer eligible. The SR&ED incentive is not limited to particular industries.

IP and jurisdictional requirements

SR&ED must be carried on by the taxpayer in Canada.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Canada.

Role of governmental bodies in administering incentives

The legislation governing the SR&ED program is contained in the federal Income Tax Act and Income Tax Regulations, which are the responsibility of the Department of Finance. The CRA is responsible for the program's administration, including review and assessment.

Administrative requirements

Form T661, Scientific Research and Experimental Development Expenditures Claim, as well as Form T2SCH31 (Schedule 31), Investment Tax Credit (Corporations), or Form T2038, Investment Tax Credit (Individuals), must be completed and filed with prescribed information. The reporting deadline is 12 months after the filing due date of the return for the fiscal period in which the expenditures were incurred.

Statutory reference

- ▶ Canadian Income Tax Act – Section 37, 127, Regulation 2900
- ▶ Canadian Income Tax Act – Sections 20(1)(a), 127(9), Regulations 4600, 5202, Schedule II of Regulations – Class 29, 50



Chile

Chile

This chapter is based on information current as of 15 March 2014.

Overview

The Ministry of Economy has defined as part of its strategy for Chile's development the goal of converting Chile into a hub of innovation and entrepreneurship in the Latin American region. For this purpose, it has implemented a number of Chilean Economic Development Agency (CORFO) programs designed to attract entrepreneurs and R&D investment to Chile and to connect Chile to the world's main technology markets.

Currently, corporate taxpayers are entitled to a 35% tax credit against their corporate tax liability, limited to the monthly tax unit (UTM) 15,000 (approximately US\$1.2 million), where the base is calculated by using the total amount disbursed in an R&D contract with a registered research center. Or, if taxpayers use their own internal resources, the base would be calculated on the amounts disbursed within the R&D certified project for current expenses and an annual quota of fixed asset depreciation for assets acquired and destined to R&D activities. Disbursements incurred over and above the aforementioned limit will be able to be deducted as expenses. These expenses may be deducted by taxpayers incurring them over up to 10 consecutive commercial years, starting in the year in which the R&D contract or project is certified and the payment has been effectively made.

Although the Chilean Income Tax Law expressly regulated disbursements made in relation to R&D activities under the concept of allowable tax expenses, it was not until the enactment of Law N° 20.241 in January 2008 that the Government clearly showed its attitude toward granting a tax benefit in relation to these activities. However, the limits for the total amount of credit available and the deductibility of the expense, and in particular, the requirement to contract with an R&D center, thus being unable to use in-house resources, render it almost inapplicable, as the benefits do not justify the costs. As the number of investors applying for these tax benefits were lower than expected, this led to enactment of a new law to complement the first one, Law N°20.570, which has been in force since March 2012. Since then, more tax benefits have been awarded given the higher level of investors who make use of these new benefits.

Chilean Tax law is experiencing major reform and is subject to change. It is therefore advised that additional research and diligence is carried out should you wish to apply for the incentives listed.

2014 tax rates

Top corporate income tax rate (national and local average)	20% ¹
Standard VAT rate	19% ²

¹ On 10 September 2014, the Chilean Chamber of Representatives approved a tax reform bill. The corporate tax rate will increase to 21% (2014), 22.5% (2015), 24% (2016), 25% or 25.5% (2017) and 27% (2018-only for distributed income).

² 2013 Worldwide Corporate Tax Guide, EYGM Limited, July 2013.

EY contact:

Alicia Dominguez
alicia.dominguez@cl.ey.com
+56 2 676 1288

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Tax incentive to private investment in R&D (Law N° 20.241)*	CORFO grants and line of credits
Types of incentives	<ul style="list-style-type: none"> ▶ Tax credits ▶ Tax deductions 	<ul style="list-style-type: none"> ▶ Cash grants

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

Tax incentive to private investment in R&D (Law N° 20.241)

(Incentivo tributario a la inversión privada en investigación y desarrollo)

Description of benefits

To encourage R&D in Chile, the Chilean Congress in March 2012 approved a new regulation, Law N° 20.241, which was later complemented by Law N° 20.570, by virtue of which tax incentives were broadened. The aforementioned incentives are summarized below.

R&D certified contract with a registered research center

- ▶ The tax credit against taxpayers' corporate tax is equivalent to 35% of payments associated to R&D certified contracts entered into with a registered research center, with a cap of UTM15,000 (approximately US\$1.2 million).
- ▶ Taxpayers will be allowed to deduct as an expense any amounts paid, not deducted as a credit, associated to R&D certified contracts entered into with a registered research center. In this case, 35% is taken as a tax credit and the remaining 65% is taken as a deduction. For these purposes, disbursements incurred in R&D contracts are considered to be necessary, even though they may not be related to the taxpayer's main line of business.
- ▶ If taxpayers enter into an uncertified contract, they will only be entitled to deduct 65% of the disbursements made in connection to the R&D contract as expenses and will not be entitled to the 35% tax credit. However, certification at a later date, in accordance with the procedures set forth in the law, will enable the taxpayer to access the tax credit benefit.
- ▶ Any remaining tax credit against corporate tax may be carried forward until extinction.
- ▶ A preapproval process is required to obtain the incentive.

R&D project (based on in-house R&D activities)

- ▶ The tax credit against the taxpayer's corporate tax is equivalent to 35% of the base composed of total payments made concerning current expenses in tandem with the annual quota of depreciation of fixed tangible property acquired within the scope of the R&D project, with an annual cap of UTM15,000 (approximately US\$1.2 million).
- ▶ Taxpayers will be allowed to deduct as an expense any amounts paid, not deducted as a credit, in connection with an R&D certified project. For these purposes, disbursements incurred in R&D projects are considered necessary, even though they may not be related to the taxpayer's main line of business.
- ▶ If taxpayers begin making disbursements for an uncertified project, they will only be entitled to deduct 65% of the amount disbursed as expenses. This means the 35% tax credit benefit will not be awarded. However, certification at a later date will enable taxpayers to access the tax credit benefit.
- ▶ Any remaining tax credit against corporate tax may be carried forward until extinction.
- ▶ A preapproval process is required to obtain the incentive.

Guidelines around incentive applications

The incentive is applicable to current investments. As the benefits consist on a tax credit and the possibility to deduct the related disbursements as an expense, the tax benefit will be determined upon determination of net taxable income. Tax benefits are claimed annually through the regular tax form used to report income, Form N° 22. This form has to be filled during April following the year the disbursement took place.

CORFO grants and line of credits

(Atracción de centros de excelencia internacional en I+D, Concurso Perfil de I+D aplicada, Concurso Proyecto de I+D Aplicada, Programa de innovación empresarial de alta tecnología, Consorcios Tecnológicos para la innovación)

Description of benefits

CORFO offers more than 50 programs and financial instruments aimed at stimulating entrepreneurship, innovation and competitiveness in the Chilean economy. Among others, the R&D-related instruments are listed below.³

Attraction of International R&D Centers of Excellence

- ▶ This program provides support for the setup and operation of a branch of the International Center of Excellence in Chile, as well as support for activities directly associated with R&D lines.
- ▶ For Institutional International R&D Centers of Excellence, a maximum of US\$12.8 million in co-financing is provided over eight years.
- ▶ For Corporate International R&D Centers of Excellence, a maximum of US\$8 million in co-financing is provided over four years.

Applied R&D Profile Competition

- ▶ This grant supports all activities that contribute to formulation of an applied R&D project. Beneficiaries will receive a contribution of up to 80% of the total cost of the project, with a ceiling of CLP\$15 million (approximately US\$30,000). Participants must provide the remaining financing in cash.

Applied R&D Project Competition

- ▶ This grant finances activities that enable the development of applied R&D projects. For example, activities pertaining to applied research may be funded, such as prototype development, experimental tests and concept tests; market assessment, technology/IP assessment; patentability studies, protection of IP, incorporation of foreign experts who support project development; studies required for R&D, such as a market study.
- ▶ The beneficiary receives a grant of up to 80% of the total cost of the project, with a ceiling of CLP\$180 million (approximately US\$360,000). Participants must contribute the remaining financing in cash.

High Technology Business Innovation Program

- ▶ This program subsidizes corporate innovation activities aimed at developing high-tech innovation projects related to research, development and innovation, oriented at decreasing the uncertainty and technical risk of this kind of project. Likewise, the grant supports activities aimed at developing a strategy for intellectual and industrial property protection, and commercial prospecting activities that assist in decreasing business uncertainty.
- ▶ This line finances up to 50% of the total amount required, with a maximum grant ceiling of CLP\$750 million (approximately US\$1.5 million).

Technology Consortiums for Innovation

- ▶ This program is aimed at consortiums that have already been formed via instruments of CORFO, FIA⁴ and CONICYT,⁵ as well as new consortiums. In the latter case, the initiative must include at least three legal entities, a majority of which are for-profit and have been in business for at least three years. Additionally, at least one of the three associated legal entities must be incorporated in Chile.
- ▶ This program finances corporate innovation activities that allow for the creation of medium- and long-term scientific and technological research, aimed at developing projects with market impact. The proposal must contemplate, at least, the implementation of a R&D program.
- ▶ Additionally, the program finances technology and innovation implementation activities that are directly related to the consortium's research lines and projects, as well as activities aimed at developing an intellectual and industrial property protection strategy and activities necessary for the operation and functions of the consortium.
- ▶ The program co-finances up to 50% of the total amount required, with a maximum ceiling of CLP\$5 billion (approximately US\$10 million), with a maximum project duration of 10 years.
- ▶ Participants must contribute at least 20% of the total project cost in cash.

³ CORFO develops new programs and instruments every year and some of the programs are discontinued. The requirements to apply for each of the individual programs are detailed on CORFO's website.

⁴ Research Partnerships Program.

⁵ National Commission for scientific and technological research.

Guidelines around incentive applications

The incentives are applicable for the future investments. Corporations, research centers, universities and in general qualified persons in accordance with each grant must submit an application to CORFO. Each grant specifies special requirements for the grants, which are available at the CORFO website. Qualified grantees must comply with requirements set forth for each grant.

Eligibility requirements⁶

Taxpayers subject to the First Category of Income Tax (corporate tax) who declare their effective revenue determined according to full accountancy rules and who enter into an R&D contract with a duly authorized research and development center, or those who develop an R&D project using their own resources or from third parties, both duly certified by CORFO.

“Research activities” are understood as methodical searches aimed at generating new knowledge in a scientific or technological field that may be catalogued as basic research or applied research. “Development” is understood as a systematic study that takes advantage of existing knowledge gained from previous research or experience and is aimed at producing new materials, products or devices in order to implement new processes, systems and services or to substantially improve existing ones. Software developments are considered a development activity as long as the software development gives rise to greater knowledge in order to solve a scientific or technological uncertainty in a systematic way or to generate a substantial improvement and innovation in a current process, product and/or service.

Qualifying expenses related to for tax credits/tax incentives for private investment in R&D are listed below.

R&D certified contract with a registered research center

- ▶ All expenses related to R&D contract payment qualify. Additionally, rights and procedures related to registering any intellectual property right, when related to the R&D activity, also qualify.

R&D project (based on in-house R&D activities)

- ▶ All disbursements related to the R&D project are duly informed to CORFO upon application for certification. In particular, the law presents some guidance:
 - ▶ Eligible expenses include current expenses including salaries and fees; direct expenses such as materials, chemical reagents, IT services and data analysis; service contracts with third parties directly related to project development (at least 50% must correspond to expenses incurred within the country); leasing, or subleasing, real estate or buildings necessary to develop the activities; expenses related to IP registration rights; utility expenses, such as water services and electricity, which must not be more than 5% of the total expenses (although CORFO may authorize more of these types of expenses depending on each particular case).
 - ▶ Expenses related to immovable property related to the project.

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones that provide R&D incentives in Chile.

Role of governmental bodies in administering incentives

The R&D tax incentive operates on a self-assessment basis and is jointly administered by the Chilean Internal Revenue Service and CORFO. Under the incentive framework, CORFO is in charge of keeping a registry where the research centers may apply. Additionally, CORFO is in charge of certifying the R&D contracts entered into between a taxpayer and a research center or the R&D project that a taxpayer develops individually.

⁶ The eligibility requirements are related to R&D tax incentives

Administrative requirements

Research center registration

- ▶ A research center must apply for registration with CORFO. To do this, the center must attach documentation and evidence required by law and regulations to its application, as well as proof of payment of registration fees. In order to be registered, the centers must minimally prove the following:
 - ▶ The center has the necessary organization and means, material, and personnel to develop the R&D activities
 - ▶ The center has been operating and exercising R&D activities for at least six months prior to the application
 - ▶ The center has mechanisms that faithfully and clearly reflect the income and expenses that will be undertaken as part of the project
- ▶ In addition, the legal representative must file an affidavit stating that the records provided are authentic, truthful and are fully valid as of the date of submission.
- ▶ Concerning annual compliance, each year (during the month of May) the legal representative must inform CORFO any substantial modifications that concern changes on the conditions under which the center applied or those that have helped it maintain registration. If no modifications have taken place, the legal representative must file an affidavit stating so.

Certification of R&D contracts with a research center

- ▶ Taxpayers who wish to benefit from the tax benefits must enter into a written R&D contract for an amount of more than UTM100 (approximately US\$8,000).
- ▶ CORFO must certify the contract, a process in which an analysis will be conducted to verify that:
 - ▶ The contract's purpose is to develop R&D activities.
 - ▶ The activities to be developed are related to the center's resources, material and personnel in order to accomplish the objective.
 - ▶ The price of the contract is at market value.
- ▶ CORFO will be in charge of ensuring that the contract has been properly fulfilled. Tax benefits may be lost if CORFO determines that there has been a breach of contract.
- ▶ The Chilean Internal Revenue Service (IRS) is empowered to review these contracts in order to verify if the objectives are being executed in the terms agreed upon and that the projects being developed in relation to the organization and resources available to the respective research center are duly registered.

R&D project certification

- ▶ CORFO must certify the project in order for the taxpayer to access the benefit. Therefore, the taxpayer must complete an application with CORFO, where the latter must verify that the taxpayer:
 - ▶ Has an R&D project that includes an R&D purpose, with a cost greater than UTM100 and has adequate capacity in material and personnel to develop the project
 - ▶ Has mechanisms that faithfully and clearly reflect the income and expenses that will be undertaken as part of the project
 - ▶ Has filed an affidavit stating that the records provided are authentic, truthful and fully valid as of the date of submission
 - ▶ Has verified that the costs correspond to the activities to be developed and reflect market values
- ▶ CORFO will be in charge of ensuring that the contract has been properly fulfilled throughout the duration of the project.
- ▶ Concerning annual compliance, the taxpayer must inform CORFO and the IRS regarding R&D projects that are ongoing or that have been executed in the past 12 months, identify the people to whom payments have been made under these projects and the amount of these payments, and give the total cost of each project certified by CORFO through an annual affidavit.

Statutory reference

- ▶ Law N° 20.241
- ▶ Law N° 20.570 (amendment)
- ▶ Decree N° 102, 2012 (regulations)



China

China

This chapter is based on information current as of 15 August 2014.

EY contact:

Jenson Tang
jenson.tang@cn.ey.com
+86 21 2228 2045

Overview

Most of the R&D incentives have been available in China for many years, and overall, the regime is becoming more mature with constantly issued laws and regulations. However, as some regulations are still not explicit, authorities in different locations may have different interpretations and treatments regarding R&D incentives.

The Government encourages R&D activities, while taking a stringent position on the approval of R&D incentives. A preapproval or information registration is required to claim R&D tax benefits.

Taxpayers need to submit all relevant information including the R&D project budget, descriptions of specific R&D projects, categories of R&D expenditure, and management or board meeting documents authorizing R&D project(s) to the Government authorities as early as possible.

China offers incentives to taxpayers eligible for the Technologically Advanced Service Company (TASC) and the High-New Technology Enterprise (HNTE) status. TASC and HTNE refer to those companies with advanced technologies and qualified personnel to produce products or provide services. It also provides pre-tax super deductions of 150% on qualifying R&D expenses actually incurred during the year. In addition, China provides CIT exemption and reduction for the transfer of qualified technologies.

2014 tax rates

Top corporate income tax rate
(federal and state average) 25%¹

VAT rate:

- ▶ Standard VAT rate 17%
- ▶ VAT pilot arrangements 17%, 11%, 6%, 0%²

¹ Article 4 of China CIT Law, effective from 1 January 2008.

² According to VAT pilot arrangements, the applicable VAT rates for general VAT taxpayers regarding VAT pilot services are as follows: 17% – according to VAT pilot arrangements, the applicable VAT rates for general VAT taxpayers regarding the lease of tangible moveable properties will be subject to 17%; 11% – according to VAT pilot arrangements, the applicable VAT rates for general VAT taxpayers regarding the transportation services and basic telecommunications services will be subject to 11% VAT rate; 6% – according to VAT pilot arrangements, the applicable VAT rates for general VAT taxpayers regarding certain modern services (including R&D and technology services, information technology services, cultural and creative services, logistics auxiliary services and authentication and consulting services, radio, film and television services) and value-added telecommunications services will be subject to 6% VAT rate; 0% – according to VAT pilot arrangements, the applicable VAT rates for general VAT taxpayers regarding the taxable services specified by the Ministry of Finance and State Administration of Taxation, such as providing international transport services or R&D services and design services to overseas entities will be subject to 0% VAT rate. In addition, most of the goods exportation will be subject to 0% VAT rate.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Incentives for Technologically Advanced Service Companies (TASC) status*	Incentives for High- and New Technology Enterprises (HNTE) status	R&D expenses super deduction	Incentives for qualified technology transfer income
Types of incentives	<ul style="list-style-type: none"> ▶ Reduced tax rates 	<ul style="list-style-type: none"> ▶ Reduced tax rates ▶ Tax holiday 	<ul style="list-style-type: none"> ▶ Super deduction 	<ul style="list-style-type: none"> ▶ Tax exemption and reduction

* Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Incentives for TASC status

(技术先进型服务企业)

Description of benefits

The following tax benefits are available to companies qualifying as TASCs in selective 21 cities³ from the beginning of 2009 until the end of 2018:

- ▶ A reduced CIT rate of 15%.
- ▶ The deduction limit of employee education expenses increases to 8% of total salaries and wages (compared with normal rate of 2.5%) for CIT purposes.
- ▶ A business tax (BT)/VAT exemption applies on qualified offshore outsourcing service income.
- ▶ A preapproval process is required to obtain the incentives.

Guidelines around incentive applications

The incentive is applicable for current investments. A company with TASC certifications may enjoy a 15% reduced CIT rate within the validation period of the certification. The relevant information or documents should be submitted for tax bureau review each year for the TASC status. The incentives related to the 8% deduction limit of employee education should be claimed in the annual CIT filing return, which is due within five months after the end of the tax year (the statute annual filing deadline). The application package should be submitted with the relevant forms in the CIT filing return, which include the Basic Information Form on Taxpayers, Appendix 5 and Supplementary Table 7 of the return.

³ Including Beijing, Tianjin, Dalian, Harbin, Daqing, Shanghai, Nanjing, Suzhou, Wuxi, Hangzhou, Hefei, Nanchang, Xiamen, Jinan, Wuhan, Changsha, Guangzhou, Shenzhen, Chongqing, Chengdu and Xi'an. In addition, a BT exemption (from 1 December 2011)/VAT exemption (from 1 November 2012) are provided for qualified offshore outsourcing service income in Pingtan, Fujian.

Incentives for HNTE status

(高新技术企业)

Description of benefits

- ▶ A reduced CIT rate of 15% is available to HNTEs.
- ▶ For a qualified HNTE newly established in one of the five Special Economic Zones⁴ or the Shanghai Pudong New Area on or after 1 January 2008, the enterprise may be entitled to a tax holiday of “two years’ exemption and three years’ half deduction” from the first year in which it derives production or operating income.
- ▶ A preapproval process is required to obtain the incentive.

Guidelines around incentive applications

The incentive is applicable for current investments. A company with HNTE certifications may enjoy a 15% reduced CIT rate within the validation period of the certification. The relevant information or documents should be submitted for tax bureau review each year that HNTE status is requested, which is due within five months after the end of the tax year (the statute annual filing deadline). The relevant forms in the CIT filing return should be submitted, including the Basic Information Form on Taxpayers, Appendix 5 and Supplementary Table 3-5 of the return.

R&D expenses super deduction

(研发费加计扣除)

Description of benefits

- ▶ According to CIT Law, resident enterprises are allowed to deduct 150% of qualified R&D expenses for CIT purpose (hereinafter referred to as “R&D expenses super deduction”).
- ▶ A documentation filing process is required to secure the incentive.

Guidelines around incentive applications

The incentive is applicable for current investments. The incentives related to the R&D expenses super deduction should be claimed during the annual CIT filing, which is due within five months after the end of the tax year (the statute annual filing deadline).

⁴ “Special Economic Zones” refers to those in Shenzhen, Zhuhai, Shantou, Xiamen and Hainan.

The application package should be submitted with the relevant forms in the CIT filing return, which include the Basic Information Form on Taxpayers, Appendix 5 and Appendix 5(1) of the return.

Incentives for qualified technology transfer income

Description of benefits

- ▶ According to CIT Law, CIT can be exempted and reduced for qualified technology transfer income.
- ▶ A documentation filing process is required in securing the incentive.

Guidelines around incentive applications

The incentive is applicable for current investments. The incentives related to qualified technology transfer income should be claimed after the end of each tax year, and the claim is due no later than five months after the end of the tax year (the statute annual filing deadline). The relevant forms in the CIT filing return should be submitted, including the Basic Information Form on Taxpayers, Appendix 5 and Appendix 5(3) of the return.

Eligibility requirements

Incentives related to HNTE status

- ▶ Key considerations:
 - ▶ The HNTE certificate must be obtained before applying for preferential tax treatment from the in-charge tax authority.
 - ▶ The recognition of HNTE is jointly managed by the Ministry of Science and Technology (MOST), the Ministry of Finance (MOF) and the State Administration of Taxation (SAT), with MOST carrying out initial checks.
 - ▶ HNTE status certificate is valid for three years from the date of issuance.
- ▶ Major recognition criteria of HNTE:
 - ▶ Core IP rights ownership
 - ▶ Products or services falling within the scope of the catalogue of key high-technology and new-technological territories
 - ▶ Headcount requirement for R&D personnel (30% graduates with an associate degree or above, no less than 10% of total headcount for R&D)

- ▶ Minimum R&D expenses requirement (3% to 6% of R&D expenses over turnover for the preceding three accounting periods)
- ▶ Minimum revenue requirement from high-technology and new-technology products or services (60% of total annual revenue)
- ▶ Four analyses are required on the number of proprietary IP, capability to convert R&D findings into IP, ability of execution and management of R&D activities, and growth of revenue and total assets.

Incentives related to TASC status

- ▶ Major recognizing criteria of TASC:
 - ▶ For the CIT incentive:
 - ▶ Engaging in one or more of qualified technologically advanced outsourcing services (information technology outsourcing (ITO), business process outsourcing (BPO) and knowledge process outsourcing (KPO))
 - ▶ Location of registration and operation (21 model cities)⁵
 - ▶ Qualified operating history
 - ▶ Minimum education level requirement for employees (50% graduates with an associate degree or above)
 - ▶ Minimum revenue requirement from qualified technologically advanced services (50% of annual total revenue)
 - ▶ Minimum revenue requirement from qualified offshore outsourcing services (50% of annual total revenue)
 - ▶ For business tax (BT) exemption/VAT exemption on the qualified offshore outsourcing service income:
 - ▶ Providing qualified technologically advanced outsourcing services in ITO, BPO or KPO fields to overseas entities
 - ▶ Location of registration and operation (21 model cities)⁶

R&D expenses super deduction

- ▶ Scope of qualified R&D expenses:
 - ▶ Design expenditures for new products; expenditures for formulating new techniques and procedures; expenditures for technical books and materials, including translation expenditures, that are directly related to the R&D activities
 - ▶ Expenditures of direct materials, fuel and power consumed during the R&D activities

- ▶ Wages, salaries, bonuses, subsidies and allowances for research personnel
- ▶ Depreciation or lease expenditures for equipment and devices used specifically for the R&D activities
- ▶ Amortization expenditures for intangible assets, such as software, patent rights and certain non-patented technologies used specifically for the R&D activities
- ▶ Expenditures incurred to develop and fabricate prototypes and trial models exclusively used for intermediate testing and experiments
- ▶ Site-testing expenditures for exploration activities
- ▶ Expenditures incurred on assessment, review, inspection and certification of research results
- ▶ Basic pension fund, basic medical insurance, work-related injury insurance, unemployment insurance, maternity insurance and housing fund contributed by a company for its employees directly engaging in R&D activities in accordance with regulations set by the State Council or relevant provincial-level government authorities
- ▶ Costs of operational maintenance, adjustment, testing, and repair of tools and equipment incurred exclusively for R&D activities
- ▶ Costs of samples and prototypes that do not constitute fixed assets, and expenses for general testing solutions
- ▶ Clinical trial costs for R&D activities for new drugs
- ▶ Certificate cost for R&D results

Incentives related to the qualified technology transfer income

- ▶ Relevant CIT incentives:
 - ▶ If the resident enterprise's income from its technology transfer does not exceed RMB5 million (about US\$806,452)⁷, CIT may be exempted.
 - ▶ For the part of the enterprise's income exceeding RMB5 million, the enterprise income tax shall be half exempted.
- ▶ Criteria for CIT incentives:
 - ▶ The technology transferor must be a tax resident company within China.
 - ▶ The technology transferred shall fall into the scope specified by the MOF and the SAT.
 - ▶ The technology transfer within China shall be recognized by the provincial-level science and technology authorities or above.

⁵ The 21 Model Cities include Beijing, Tianjin, Dalian, Ha'erbin, Daqing, Shanghai, Nanjing, Suzhou, Wuxi, Hangzhou, Hefei, Nanchang, Xiamen, Jinan, Wuhan, Changsha, Guangzhou, Shenzhen, Chongqing, Chengdu, Xian.

⁶ In addition to the abovementioned 21 model cities, from 1 December 2011, income derived from offshore outsourcing income by entities registered in Pingtan is exempted from BT. Further, such income is exempted from VAT from 1 November 2012 under VAT pilot arrangement.

⁷ Assuming USD100=CNY620.

- ▶ The transfer of technology to overseas shall be recognized by the provincial-level commerce authorities or above.
- ▶ There may be other criteria specified by the relevant in-charge authorities.
- ▶ Scope of qualified technology transfer:
 - ▶ Transfer of patent technology
 - ▶ Transfer of computer software copyright
 - ▶ Transfer of right of integrated circuits layout designs
 - ▶ Transfer of new species of plant
 - ▶ Transfer of biopharmaceutical products
 - ▶ Transfer of other technology authorized by the MOF and SAT

IP and jurisdictional requirements

The IP must be registered and owned locally. The company claiming the R&D incentive must have effective ownership of the IP.

Technology or innovation zones

There are many National Economic and Technological Development Zones (NETD Zones) in China, and various preferential treatments of financial subsidies are provided to companies established inside the NETD Zones. R&D incentives provided by each NETD Zone are diverse, according to the different development status and development policies of each NETD Zone. There are no specific uniform R&D incentives to these zones other than the incentives listed.

R&D incentives are mainly provided by local authorities of NETD Zones by way of rewards or subsidies. The types of R&D incentives include land/office price reduction, one-off subsidy and financial subsidies to attract the R&D Headquarter/Center or technological companies, technology innovation project/program financing, additional subsidies to the original R&D incentives, subsidies to the talents engaging in scientific and technological innovation, and rewards for the technology innovation honors, etc.

Role of governmental bodies in administering incentives

Incentives related to HNTTE status

- ▶ Involved Government agencies:
 - ▶ MOST, MOF and SAT
- ▶ The MOST, MOF and SAT are responsible for the guidance, management and supervision of the HNTTE recognition procedures nationwide. The actual processing of application for recognition as an HNTTE and their subsequent monitoring will be carried out by the recognition institutes at provincial level set up by local offices of the MOST, MOF and SAT. When the company is granted the HNTTE status, it shall submit the relevant application documents to the in-charge tax bureau to claim relevant tax incentive for HNTTE.

Incentives related to TASC status

- ▶ Involved Government agencies:
 - ▶ MOF, SAT, the Ministry of Commerce (MOC), MOST, and the National Reform and Development Commission (NRDC).
- ▶ Eligible companies should submit the application documents to the local science and technology authority, which will jointly manage the recognition of TASC with local authorities of commerce, finance, tax, and national reform and development. When the company is granted the TASC status, it shall submit the certificate and relevant application documents to the in-charge tax bureau in order to claim the tax incentive in its CIT annual filing.

R&D expenses super deduction

- ▶ Involved Government agencies:
 - ▶ SAT, Tax authorities at local levels and the science and technology authorities at city level or above
- ▶ The company should submit the required documents to the in-charge tax bureau during the annual CIT filing in order to claim the super deduction for R&D expenses, and the tax bureau will conduct relevant assessments. The tax bureau may seek help from the science and technology authorities at the city level or above in the qualification assessment of R&D expenses. If the company and the tax authorities cannot agree on the allocation basis and amounts allocated for shared R&D expenses within a group, the involvement of the SAT for a ruling may be required when the group has subsidiaries in different provinces, autonomous regions and cities. Otherwise, only a ruling from the provincial level tax authorities is required.

Incentives related to the qualified technology transfer income

- ▶ Involved Government agencies:
 - ▶ Tax authorities at local levels, science and technology authorities at provincial level or above, commerce authorities at provincial level or above
- ▶ The company should submit the required documents to the in-charge tax authorities for a record to claim CIT exemption or reduction for qualified technology transfer income. The technology transfer within China shall be recognized by the provincial-level science and technology authorities or above, while the cross-border transfer of technology shall be recognized by the provincial-level commerce authorities or above.

Administrative requirements

Government preapproval is required to claim R&D tax benefits. Taxpayers are required to submit all relevant information to the Government as early as possible, including the R&D project budget, descriptions of specific R&D projects, categories of R&D expenditures, and management or board meeting documents authorizing R&D project(s).

Annual compliance requirements

Incentives related to HNTE status

- ▶ In general, HNTE companies should submit relevant documents to the in-charge tax bureau prior to their annual CIT filing. Relevant documents mainly include the HNTE certificate and specified forms about R&D expenditure ratio and sales/service income analysis.

Incentives related to TASC status

- ▶ In general, TASC companies should submit relevant documents or information to the in-charge tax bureau during annual CIT filing. For example, relevant documents include the total revenue on technologically advanced services and specified forms about the offshore outsourcing service revenue ration.

R&D expenses super deduction

- ▶ In order to enjoy the tax incentive, the following documents need to be submitted to the in-charge tax bureau during annual CIT filing:
 - ▶ R&D super deduction form in the annual filing package
 - ▶ Proposals and R&D expenses budgets

- ▶ Headcount and name list of R&D professionals
- ▶ R&D expense super deduction form which is used to record qualified R&D expenses, excluding those already booked as cost of intangible assets, actually incurred for a tax year
- ▶ Relevant board resolutions or resolutions of general manager meetings
- ▶ Contracts or agreements of relevant R&D projects
- ▶ R&D project progress explanatory reports and research results reports
- ▶ Other materials required by the in-charge tax bureau
- ▶ The company may engage a qualified accounting firm or tax agent firm to issue special purpose audit reports or verification reports to claim a super deduction.

Incentives related to the qualified technology transfer income

- ▶ A company that makes a technology transfer transaction should submit relevant documents to the in-charge tax bureau for the record after the end of the tax year and before submitting CIT annual filing returns. Relevant documents include:
 - ▶ Technology transfer agreement (copy);
 - ▶ The registration certificate issued by the provincial level of science and technology department or above for transfer of technology within China or technology export registration certificate (or technology export permit) issued by provincial level of commerce department or above for transfer of technology to overseas parties;
 - ▶ The information with regard to accumulation, allocation and calculation of technology transfer income;
 - ▶ Certificate for tax or fee actually paid and
 - ▶ Other information if required by in-charge tax authorities.

The certification requirement

Incentives related to HNTE status

- ▶ The recognition of HNTE is carried out by the recognition institutes at provincial level set up by local offices of the MOST, MOF and SAT. Typically, there are six steps in the HNTE recognition procedure:
 1. Online self-assessment;
 2. Online registration;
 3. Documents submission;
 4. Assessment and HNTEs list confirmation by the MOST, MOF and SAT at the provincial level;

5. Public opinion solicitation;
 6. Application for preferential tax treatments (if there is no objection incurred in Step 5, and the HNTE Certificate is issued).
- ▶ An HNTE certificate is valid for three years from the date of issue but is eligible for renewal through a reassessment procedure three months prior to its expiration.

Incentives related to TASC status

- ▶ A company qualified for TASC should apply to the local authority of MOST. The recognition of TASC is jointly managed by local authorities of MOF, SAT, MOC, MOST and NRDC. Typically, there are seven steps in the TASC recognition procedure:
1. Online registration;
 2. Online declaration and submission of documents;
 3. Preliminary examination and recommendation by the prefecture-level offices of MOF, SAT, MOC, MOST and NRDC;
 4. Assessment and TASC list confirmation by the provincial-level offices of MOF, SAT, MOC, MOST and NRDC;
 5. Public opinion solicitation;
 6. Submission to the state-level offices of MOF, SAT, MOC, MOST and NRDC for the record;
 7. Announcement and TASC certificate issuance.
- ▶ A TASC certificate is valid for three years from the date of issue but is eligible for renewal through a reassessment procedure three months prior to its expiration.

Qualified technology transfer income

- ▶ A registration certificate for the technology transfer contract is necessary when applying for tax incentives at the tax bureau. An agreement for technology transfer within China should be registered with the authorities of science and technology at the provincial level or above, while the cross-border technology transfer should be registered with commerce authorities at the provincial level or above. If the cross-border technology transfer agreement involves technology that was developed with government financial support, it should be subject to approval from departments of science and technology at the provincial level or above. The documents to be submitted mainly include the agreement, and scanned copies of the involved intellectual property certificates. The registration requirement may vary between authorities in different provinces.

Statutory reference

Regulations	Effective year
Incentives related to HNTE	
Article 28 of CIT Law	Year 2007
Article 93 of Implementation Regulation of CIT Law	Year 2007
Guo Fa [2007] No. 40	Year 2007
Guo Ke Fa Huo [2008] No. 172	Year 2008
Guo Ke Huo Zi [2008] No. 128	Year 2008
Guo Ke Fa Huo [2008] No. 362	Year 2008
Guoshuihan [2009] No. 203	Year 2009
Caishui[2011] No. 47	Year 2011
Incentives related to TASC	
Guobanhan [2009] No. 9	Year 2009
Caishui [2009] No. 63	Year 2009
Guo Ke Huo Zi [2009] No. 152	Year 2009
Caishui [2010] No. 64	Year 2010
Caishui [2010] No. 65	Year 2010
Guobanhan [2013] No. 33	Year 2013
R&D super deduction	
Article 30 of CIT Law	Year 2007
Article 95 of Implementatino Regulation of CIT Law	Year 2007
Guo Shui Fa [2008] No.116	Year 2008
Caishui [2013] No. 70	
Incentives related to the qualified technology transfer income	
Article 27 of CIT Law	Year 2007
Article 90 of Implementation Regulation of CIT Law	Year 2007
Guoshuihan [2009] No. 212	Year 2009
Caishui [2010] No. 111	Year 2010
SAT Annoucnment [2013] No. 62	Year 2013



Colombia

Colombia

This chapter is based on information current as of 15 March 2014.

Overview

R&D in Colombia is based upon the definitions proposed by the OECD contained in the Standard Practice for Surveys on Research and Experimental Development of 1963 (and updated in 2002), also known as the Frascati Manual.

Under these definitions, R&D is defined as those activities that comprise creative work "undertaken systematically to increase the stock of knowledge, including knowledge of mankind, culture and society, and the use of such knowledge to create new applications." This definition of R&D was adopted by the Administrative Department of Science, Technology and Innovation (Departamento Administrativo de Ciencia, Tecnología e Información (COLCIENCIAS)) in Colombia.

The concept of technological development refers to the application of research results "or any other scientific knowledge for the manufacture of new materials, products, to the design of new processes, production systems or services, as well as substantial technological improvement of materials, products, processes or legacy systems." And, finally, the term "innovation" involves "the introduction of a new or significantly improved product (good or service) of a process, a new marketing method, or a new organizational method in business practices, the organization of the workplace or the external relationships."

The Colombian State has promoted tax incentives to the scientific, technological and innovation development communities, providing different benefits that encourage these activities. In accordance with the Inter-American Development Bank, even though the investment in Latin America in these three concepts is relatively low in comparison with more industrialized countries, the investment has achieved a growing interest in regional governments, representing in Colombian case, around 0.15% of the gross domestic product.

The introduction of tax incentives to the scientific, technological and innovation development in Colombia was established with Law 6 of 1992, and the R&D incentives regime has since been expanded to include the following eligible activities: projects for investment in science and technology, and development and new medical products; donations for projects in science and technology, patents, strategic programs and/or projects of research, technological development and innovation; business and external commerce development; and importation equipment and tools under certain conditions, among other activities.

2014 tax rates

Top corporate income tax rate (national and local average)	34% ¹
Standard VAT rate	16% ²

¹ Top corporate income tax rate consists of two income taxes; an income tax rate for corporations of 25% and the income tax for equity (CREE Tax) at a rate of 8%. For the years 2013 to 2015, the CREE rate will be 9% (Colombia Tax Law 1607 of 2012).

² The rate refers to the general VAT rate. The rates may vary depending on the taxed good or service (Section 468 Tax Code).

EY contacts:

Margarita Salas
margarita.salas@co.ey.com
+57 1 484 7110

Ximena Zuluaga
ximena.zuluaga@co.ey.com
+57 1 484 7170

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other (capital allowance)	<input checked="" type="checkbox"/>

Incentives available

Names of incentives	Income tax deduction for investment or donations in research and technology development*	VAT exemption for imports in research, development and innovation	Tax exemption on new software with high scientific content	Exempt income for resources for science, technology and innovation, and payment of work performances related to these concepts	Financial support of strategic programs and/or projects of applied research, technological development and innovation
Types of incentives	▶ Capital allowance	▶ Tax exemptions	▶ Tax exemptions	▶ Tax exemptions	▶ Financial support

* Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Income tax deduction for investment or donations in research and technology development

(Deducción en el Impuesto Sobre la Renta por Inversiones y Donaciones en Investigaciones Científicas o Tecnológicas)

Description of benefits

A capital allowance of 175% is available for investments in the science and technology industry (Section 158-1 Tax Code). There is a cap on how much is available in the government budget for this incentive, and in 2013 the cap stood at US\$500 million. The tax saving is kept when dividend distribution to the shareholders is made. Institutions and R&D centers must be accepted first by COLCIENCIAS for the application of the tax benefit.

Guidelines around incentive applications

The incentive is applicable for current investments. The tax benefit must be claimed in the taxable year corresponding to the investment. The deduction must be registered in the Income Tax Return, Form 110. COLCIENCIAS annually makes a decision call before the end of the preceding year of the investment or donation in order to distribute the quotas. For taxable year 2014 the budget was US\$250 million. For taxable year 2015 the call will be made between September and October of 2014. In case of a remaining quota, new applications will be accepted.

VAT exemption for imports in research, development and innovation

(Exenciones tributarias en IVA para importaciones relacionadas con investigación, desarrollo e innovación)

Description of benefits

VAT exemption applies to equipment imported by research or technological development centers and basic education institutions, including elementary, middle, high school or higher education institutions that are dedicated to the development of projects rated as scientific, technological or innovative.

Guidelines around incentive applications

The incentive is applicable to current investments. The tax benefit must be claimed in the fiscal year in which they occur. The exemption must be registered in the VAT Return, Form 300. Institutions, R&D centers and the projects must be pre-approved as eligible by COLCIENCIAS. Applications may be made electronically via the COLCIENCIAS web page, www.colciencias.gov.co, at any time.

Tax exemption on new software with high scientific content

(Renta exenta de nuevo Software con alto contenido científico)

Description of benefits

A five year tax exemption is available from 1 January 2013 to 31 December 2018 for new software, developed in Colombia and covered by new patents registered with the competent authority, provided they have a high content of national scientific and technological research, certified by COLCIENCIAS. New software development has to be produced in Colombia, registered and certified by the relevant authorities, and be a result of a research project.

Guidelines around incentive applications

The incentive is applicable to current investments. The tax benefit must be claimed in the fiscal year in which the investment occurs. The exemption must be registered in the Income Tax Return, Form 110. Applications may be made electronically via the COLCIENCIAS web page, www.colciencias.gov.co, at any time.

Exempt income for resources for science, technology and innovation, and payment of work performances related to these concepts

(Ingresos no constitutivos de renta o ganancia ocasional de recursos para ciencia, tecnología e innovación, así como para la remuneración por la ejecución de labores relacionadas con estos conceptos)

Description of benefits

Income derived from the development of scientific, technological and innovation projects, according to the criteria and conditions set by COLCIENCIAS, may be exempt from tax. The same treatment is applied to the compensation of individuals for the direct execution of work of scientific, technological and innovation, provided that such compensation is derived from the respective resources for the project. The projects must accomplish the criteria and requirements stated by COLCIENCIAS.

Guidelines around incentive applications

The incentive is applicable to current investments. The tax benefit must be claimed in the taxable year correspondent to the investment. The exemption must be registered in the Income Tax Return, form number 110.

Financial support of strategic programs and/or projects of applied research, technological development and innovation

(Financiación de programas estratégicos y/o proyectos de investigación aplicada, desarrollo tecnológico e innovación)

Description of benefits

COLCIENCIAS promotes the availability of a bank of strategic programs and projects of applied research, technological development and innovation to support and finance in the form of co-financing and financing.

Guidelines around incentive applications

The incentive is applicable to current and future investments. COLCIENCIAS chooses the programs and/or projects to which the tax benefit is available.

Eligibility requirements

In order to apply for the tax benefits, projects that are applicable for the R&D incentives must be pre-approved by COLCIENCIAS.

Qualifying activities include:

- ▶ Projects for investment in science and technology
- ▶ Software development
- ▶ Donations for projects in science and technology
- ▶ Patents
- ▶ Strategic programs and/or projects of research, technological development and innovation
- ▶ Business and external commerce development
- ▶ Importing equipment and tools under certain conditions, among other activities

IP and jurisdictional requirements

There are no specific jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Colombia.

Role of governmental bodies in administering incentives

COLCIENCIAS fulfills an important role in administering incentives, including approving, studying and controlling the application of the majority of the benefits by qualifying applicable projects and the benefited entities. The Colombian Tax Authorities (Dirección de Impuestos y Aduanas Nacionales-DIAN) maintains its audit role on incentives with a tax impact. The Department of Agriculture is required to recognize nonprofit entities that gain a tax benefit arising from donations in the agricultural industry. The Department of National Education is required to recognize entities that gain an income tax deduction for investment in the education sector. To obtain the tax exemption on new software with high scientific content, the taxpayer must obtain a patent registration from the Superintendent of Industry and Trade.

Administrative requirements

COLCIENCIAS administers the preapproval process mainly through its web page, www.colciencias.gov.co. The information required to be submitted to COLCIENCIAS depends on the type of incentive applied for and the fulfillment of the parameters and conditions established by CNBT (Consejo Nacional de Beneficios Tributarios en Ciencia, Tecnología e Innovación). In addition, COLCIENCIAS, the Superintendent of Industry and Trade, the Department of Agriculture and the Department of National Education administer processes related to certificates.

Statutory reference

Articles 57-2, 158-1, 207-2 and 428-1 Tax Code, Decree 2755 of 2003, Resolution 1855, 2010, Law 450 of 2011, Law 1607 of 2012 and Agreements 3 and 4 of 2011, 5, 6 and 7 of 2012 (Administrative Department of Science, Technology and Innovation).



Czech Republic

Czech Republic

This chapter is based on information current as of 15 March 2014.

EY contact:

Martin Hladký
martin.hladky@cz.ey.com
+420 225 335 645

Overview

Subsidies and R&D relief programs are relatively consistent in the Czech Republic due to the competitive nature of the region. In 2012, the Czech Republic incentives framework was extended to include support for technology centers and strategic investments.

The Czech Republic offers benefits including special deductibility of certain R&D costs. Unlike other foreign programs aimed at supporting R&D, there is no condition of ownership as a result of R&D. Therefore, companies conducting contract R&D activities for their customers may also apply this deduction. The deductible item for R&D may also be combined with other forms of support, such as the investment incentives tax relief, making it a very interesting tool in many respects.

2014 tax rates

Top corporate income tax rate (national and local average) 19%¹
Standard/reduced VAT rate 21%/15%²

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input checked="" type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

¹ Act no. 586/1992 Coll., on income taxes, as subsequently amended.

² Act no. 235/2004 Coll., on VAT, as subsequently amended.

Incentives available

Names of incentives	R&D deduction	Investment incentives for R&D centers
Types of incentives	<ul style="list-style-type: none"> ▶ Super deduction 	<ul style="list-style-type: none"> ▶ Tax holiday ▶ Cash grant ▶ Land at preferential price

R&D deduction

(Odčitatelná položka na výzkum a vývoj)

Description of benefits

Companies with R&D activities may apply a special deductible item with respect to R&D costs. Eligible costs are thus deducted twice – once as operating costs and, for the second time, as a special deduction. Effective 1 January 2014, the R&D deduction has been increased to 110% of incremental eligible costs incurred in the tax period. There is no condition for ownership of the result of R&D. Therefore, companies conducting R&D activities for their customers who will become IP owners may apply the deduction. Unutilized R&D tax credits may be carried forward for three years.

Guidelines around incentive applications

The R&D deduction is applicable for future investments and is claimed on the standard corporate income tax return form. The form should be filed within the statutory deadline, which generally expires six months after the end of tax period if the company is subject to statutory audit or is represented by a tax advisor based on a power of attorney; otherwise, the deadline expires three months following the end of taxable period.

Investment incentives for R&D centers

(Investiční pobídky pro technologická centra)

Description of benefits

Investment incentives for R&D centers provide benefits as below:

- ▶ Tax holiday for 10 years
- ▶ Transfer of land at a discount, the rates of which depend on negotiation with the particular municipality or region
- ▶ Job creation grants of CZK200,000 per employee in regions with high unemployment
- ▶ Training and retraining grants of 25% of eligible training costs in regions with high unemployment
- ▶ Cash grants of up to 5% of capital expenditures for R&D centers in the case of strategic investment

The total benefits (excluding training grants) received by the investor must not exceed the benefits cap, which is set as a percentage of the total value of the actual eligible expenses. The percentages differ across regions. The level of support starting 1 July 2014 is 25% for large enterprises.³ Training grants are provided in addition to this cap. The caps are increased by 10% for medium-sized enterprises and 20% for small enterprises.

³ In the case of Prague, no incentives are granted.

Guidelines around incentive applications

The incentives are applicable for future investments. They are claimed on the standard corporate income tax return form. The form should be filed within the statutory deadline, which generally expires six months after the end of tax period if the company is subject to statutory audit or is represented by a tax advisor based on a power of attorney; otherwise, the deadline expires three months following the end of taxable period.

Eligibility requirements

R&D deduction

Eligible costs include personnel costs for employees involved in project implementation (including health insurance and social security costs), travel costs associated with the project, depreciation of assets used in direct connection with the project and other directly related operating costs, such as the costs of materials, supplies, energy, heating, gas and telecommunications. Effective 1 January 2014, qualifying expenses have been expanded to include external services related to R&D provided by public R&D institutions (such as universities and research institutes); however, expenses incurred during the certification of R&D results may not be included in qualifying expenses.

An important condition for using the deductible item is the preparation of written documentation of the R&D project, describing in particular the objectives and processes. When there is doubt, tax authorities may be requested to provide a binding ruling that the relevant costs can be included in the special deductible item for R&D.

Investment incentives for R&D centers

General qualification conditions for investment incentives for R&D centers

The key qualification conditions for R&D centers include the following:

- ▶ There must be creation or expansion of an R&D center.
- ▶ Investment in long-term tangible and intangible assets must be at least CZK10 million (about US\$500,000), of which at least CZK5 million must be invested in new machinery.
- ▶ At least CZK5 million must be covered by the investor's own equity.
- ▶ At least 40 new jobs must be created.
- ▶ The above conditions should be met within three years from the date the investment incentives decision was issued.
- ▶ The investment activities cannot be started before obtaining a confirmation from CzechInvest⁴ that the applicant is able to meet the investment incentives condition.
- ▶ The company should prove that the investment would not have been realized in the Czech Republic without the granting of investment incentives.
- ▶ Acquired assets and created jobs should be maintained for the duration of the incentives utilization period (10 years) and for at least 5 years from the finish of the investment project or the creation of the first job.
- ▶ Investment incentives cannot be provided to the company that has closed down the same or a similar activity in the European Economic Area in the two years preceding its application for investment incentives or which has concrete plans to close down such an activity within a period of up to two years after the investment is finished.

⁴ CzechInvest is a Czech governmental agency that collects, reviews and processes the investment incentives applications.

Special qualification conditions for investment incentives for R&D centers in the form of a tax holiday

The key special conditions stipulated by Income Taxes Act should be met. Key special conditions include the following:

- ▶ The maximum amounts of tax depreciation, tax provisions and carryforward tax losses should be applied.
- ▶ The incentives recipient should be the first owner of acquired assets (except for real estate).
- ▶ The taxpayer shall not be dissolved, subject to bankruptcy proceedings or merged with another entity.
- ▶ The taxpayer will not increase its tax base through non-arm's-length transactions with related parties.

Special qualification conditions for cash grants for strategic investments in the area of R&D centers

- ▶ The minimum amount invested in long-term tangible and intangible assets is CZK200 million, of which CZK100 million represents new machinery.
- ▶ At least 120 new jobs must be created.

Eligible expenses for the investment incentive can be the following:

- ▶ Value of tangible assets (machinery, building and land) and value of intangible assets provided that machinery represents at least 50% of the total tangible and intangible assets' value. Intangible assets should be acquired from independent business partners for an arm's-length price. Moreover, intangible assets are eligible only for up to 50% of the total tangible assets' value. The machinery has to be produced no more than 2 years prior to the acquisition, acquired at a fair market value, and not be subject to tax depreciation before.
- ▶ Value of wages incurred over the period of 24 months following the month when a job was created and filled. The new job will qualify, if it is created in the period from the day of obtaining confirmation from CzechInvest that the applicant will meet the investment incentive conditions to the end of the third year after the issuance of the decision to grant the investment incentives. The value of monthly wages per employee for the purposes of cap calculation is limited to three times the average wage in the Czech Republic.

IP and jurisdictional requirements

There is no specific jurisdictional requirement on the location of IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Czech Republic.

Role of governmental bodies in administering incentives

CzechInvest administers investment incentives. The Czech Ministry of Industry and Trade and tax authorities regularly review fulfillment of investment incentive conditions.

Administrative requirements

R&D deduction

- ▶ Administrative requirement is based on the activities in the year. Preapproval is not required. Written documentation must be prepared in advance. It is possible to apply for a binding assessment in order to obtain confirmation that the conditions for claiming the R&D deduction were met.
- ▶ Documentation must be maintained to support claims (e.g., timesheets and allocations of time spent on projects). Amendment of a corporate tax return to claim an R&D deduction retrospectively is generally not allowed.
- ▶ Czech tax authorities may review fulfillment of the R&D deduction requirements during the course of a tax audit.

Investment incentives for R&D centers

Companies are required to apply for the investment incentives before the investment activities start. Companies may claim a tax holiday provided that they received the decision granting the investment incentives and fulfilled investment incentives conditions.

The tax holiday is claimed on the standard corporate income tax return form. The tax authorities review fulfillment of investment incentive conditions during the tax audit. The investment incentive recipient should provide sufficient documentation justifying all these conditions has been met in case of an audit.

Statutory reference

R&D deduction

- ▶ Statutory reference: Income Taxes Act (Act no. 586/1992 Coll.)

Investment incentives for R&D centers

- ▶ Statutory reference: Investment Incentives Act (Act no. 72/2000 Coll.)
- ▶ Statutory reference: Income Taxes Act (Act no. 586/1992 Coll.)
- ▶ Potential changes: State authorities are currently discussing legislative amendments to investment incentives in an attempt to soften the qualifying conditions and introduce new means of support, such as a reduction of social security contributions. If implemented, the changes will be effective in the first quarter of 2015.



Denmark

Denmark

This chapter is based on information current as of 15 March 2014.

EY contact:

Søren Keller
soeren.keller@dk.ey.com
+45 51582936

Overview

The Danish Government is generally accommodating when it comes to R&D incentives from a tax perspective. Costs related to R&D activities are generally deductible for tax purposes or may be depreciated. Furthermore, new rules have been introduced in the last few years allowing super depreciations for certain business assets, and a tax credit regime for R&D costs has also been introduced.

2014 tax rates

Top corporate income tax rate (federal and state average)	24.5% ¹
Standard VAT rate	25% ²

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

¹ "2014 Global tax policy outlook," EY website, www.ey.com/GL/en/Services/Tax/International-Tax/2014-tax-policy-outlook-Denmark.

² Ibid.

Incentives available

Names of incentives	Tax allowance for experimental and research activities	Super deduction for investment opportunity	Tax credit scheme*
Types of incentives	► Tax allowance	► Super deduction	► Tax credits

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Tax allowances for experimental and research activities

(Udgifter til forsøgs- og forskningsvirksomhed, LL § 8 B)

Description of benefits

Costs incurred in experimental and research activities related to the taxpayer's business are in general fully tax deductible in the year in which the cost was incurred. Alternatively, the taxpayer may choose to deduct the cost over a five-year period, including the year the cost was incurred. Any losses resulting from the allowances may be carried forward indefinitely. The incentive is not applicable for certain business assets, such as machinery and equipment, automobiles, ships, and certain leased equipment.

Guidelines around incentive applications

The incentive is applicable for current, future and retroactive investments. In order to claim the incentive, taxpayers are required to file an annual corporate income tax return, Form 05.007, within six months following the end of the financial year (30 June if calendar year-end). For start-ups, expenditures incurred before the start of business can be used from the year business activities commence, and for operative businesses, they are usable from the year they were incurred.

Super deduction for investment opportunity

(Forhøjet afskrivningsgrundlag på nye driftsmidler (investeringsvindue))

Description of benefits

New equipment and machinery may be depreciated at a rate of 115% of the standard base for tax depreciation (typically the purchase price). This regime is applicable only for equipment and machinery acquired and in use in 2012 and 2013. The scheme does not cover certain business assets such as automobiles, ships, and certain leased equipment. Machinery and equipment with a long estimated life span are also not covered.

Guidelines around incentive applications

The incentive is applicable for retroactive investments. The incentive covers equipment and machinery acquired between 30 May 2012 and 31 December 2013. In order to claim the incentive, taxpayers are required to file annual corporate income tax return, Form 05.007, by six months following the end of the 2013 financial year (30 June 2013 if calendar year-end).

Tax credit scheme

(Skatte kreditordningen LL § 8 X)

Description of benefits

The tax credit for R&D activities enables companies to obtain a refund of negative tax (loss) relating to R&D activities. Hence, the tax value of a loss related to specific types of R&D costs can be refunded. The tax credit is calculated as up to 25% of up to DKK5 million of eligible R&D costs in the relevant income year. Starting in 2015, the maximum amount to be paid out will be increased to the tax value of DKK25 million.

For entities jointly taxed according to the Danish mandatory joint taxation regime, the limitation of tax credits is calculated at the joint-taxation level.

Guidelines around incentive applications

The incentive is applicable for current, future and retroactive investments. The incentive must be claimed with the annual corporate income tax return, Form 05.007. Application for the incentive should be submitted separately from the tax return (hence, application is not made on the tax return form). The application can also be submitted online via the Danish tax authorities' website, www.skat.dk. If the investment was made in a tax assessment year shorter than 12 months, there will be a proportional reduction.

Eligibility requirements

The expenses qualified in relation to R&D and tax credits should be based on a concrete assessment. In general, the eligible expenses include salary expenses, rental cost (laboratorial space, etc.) and raw materials. As for the tax credit, costs directly related to obtaining patents are not eligible.

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Denmark.

Role of governmental bodies in administering incentives

The R&D tax credit regime operates on an application basis. The Danish tax authorities will assess the application to rule on whether the cost qualifies under the tax credit regime.

Administrative requirements

The R&D tax credit regime operates on an application basis. The taxpayer must file an application in order for a tax credit to be issued, along with the tax return for the relevant year. The Danish tax authorities will assess whether the costs detailed in the application qualify.

Deduction of R&D costs is based on a self-assessment regime. The claim is made in the company's annual tax return for the relevant tax year that is submitted to the Danish tax authorities. In the case of a tax assessment, the Danish tax authorities may request documentation for the claimed deduction. Consequently, companies should maintain records in order to accurately substantiate the claim.

Statutory reference

Statutory reference, section 8B (deduction for R&D costs), section 8X (tax credits) of the Corporate Income Tax Act. Section 5D (super depreciation) of the Depreciation Tax Act.



France

France

This chapter is based on information current as of 15 March 2014.

EY contact:

Régis Houriez

regis.houriez@ey-avocats.com

+33 1 55 61 12 06

Thibaud Boucharlat

thibaud.boucharlat@ey-avocats.com

+33 1 55 61 15 35

Overview

Over the last few years, the French Government has been implementing several improved R&D incentives to attract R&D activities in France. These incentives can all be described as mature, with the introduction of a reduced CIT rate in 1983, the R&D tax credit in 1985 and the Innovative New Company status in 2004.

From a tax perspective, the main strands of the available R&D incentives are:

- ▶ The R&D tax credit, which is equal to 30% of eligible R&D expenses (e.g., salaries, social security contributions, running costs, depreciation, patents) incurred by the company
- ▶ The Innovative New Company status (Jeune Entreprise Innovante, or JEI), which allows companies conducting R&D projects in France to receive tax benefits and pay lower social security contributions for highly qualified jobs such as engineers and researchers
- ▶ A reduced CIT rate (15% instead of 34.43%/38%) applicable to revenues derived from patents

In practice, companies benefiting from these incentives, especially when the tax benefit is substantial, are more likely to be subject to a tax audit. In particular, the R&D tax credit has been under high scrutiny since 2011. Tax audits are hence getting more frequent, notably for significant tax credit claims (€500,000 and above).

2014 tax rates

Top corporate income tax rate
(national and local average) 33.1/3%, 34.43%¹ or 38%²

Standard VAT rate 20%³

¹ A 3.3% surcharge on CIT is applicable to entities for which CIT charge is higher than €763,000.

² A 10.7% surtax applies if the turnover of the company (or of the tax group it belongs to) exceed €250 million. This temporary 10.7% surcharge is currently applicable to fiscal years ending from 31 December 2013 to 30 December 2015.

³ Since 1 January 2014.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D tax credits*	Cash grants for collaborative R&D projects	Reduced CIT treatment of revenues derived from patents	Innovative New Company status	The territorial economic contribution (TEC) relief	Accelerated depreciation of equipment and tools used for research operations
Types of incentives	▸ Tax credits	▸ Cash grants	▸ Reduced tax rates	▸ Reduced tax rates	▸ Tax exemptions	▸ Accelerated depreciation on qualifying R&D assets

* Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D tax credit

(Crédit d'impôt recherche)

Description of benefits

Companies can receive a 30% tax credit on eligible R&D expenses. There is a credit rate of 30% for the first €100 million of qualified R&D expenses incurred during the tax year, plus 5% of any amount in excess of €100 million. The tax credit can be offset against CIT liability for the year of application and the next three subsequent years. Unutilized credits may be carried forward for three years. A refund is available if the credit has not been totally offset after three years. Subcontracted expenses are eligible up to €2 million (€10 million if the principal and the subcontractor are not dependent) and three times the amount of other R&D expenses incurred by the company.

Guidelines around incentive applications

The R&D tax credit is applicable for retroactive, current and future investments. The claim should take the form of the filing of a specific form (2069-A) along with the annual tax return of the company. Claims shall be submitted at the latest on 31 December of the second calendar year following the one during which the R&D expenses were incurred.

Cash grants for collaborative R&D projects

Description of benefits

Cash grants are available for collaborative R&D projects. The cash grants cover all or part of the industrial R&D, R&D personnel costs and the depreciation of R&D equipment. The grants are attributed to a consortium of at least two companies, active in the industry sector, and one R&D laboratory or training center. Several incentives are related to sustain collaborative R&D activity and can reach up to €20 million depending on the size of the project (up to €50 million with certain projects). Preapproval is required to obtain the cash grants.

Guidelines around incentive applications

The cash grants are applicable for current and future investments. An application must be submitted to the relevant Government authorities granting the cash.

Reduced CIT treatment of revenues derived from patents

Description of benefits

Full deductibility of amortization allowances and financing costs is available on the standard 33.33% CIT rate. In addition, a 15% CIT rate applies to the income derived by a French corporation from the licensing or sale of patents or patentable rights, subject to certain conditions (i.e., fixed asset characterization, or two-year holding period for acquired IP). Sales between related parties are not eligible for the reduced CIT rate.

Guidelines around incentive applications

The incentive is applicable for current and future investments. In order to claim the incentive, there is no specific form to file; however, the election is made on the annual tax return of the company. As a matter of principle, the annual tax return must be filed within three months of the end of each accounting year.

Innovative New Company status

(Jeune Entreprise Innovante/JEI)

Description of benefits

The incentive benefits are as follows:

- ▶ Full exemption from CIT for the first profitable year and partial exemption (50%) for the second profitable year
- ▶ Full exemption from IFA (Impôt Forfaitaire Annuel), an annual tax based on company revenues, for as long as the company remains eligible to the JEI status
- ▶ With the approval of the relevant local authorities, exemption from property tax and/or the local economic contribution (CET) for seven years
- ▶ Exemption, subject to certain conditions, from capital gains on transfers of shares or ownership interests for members of companies with JEI status
- ▶ Exemptions for eight years from employer social security contributions for certain categories of employees involved in R&D operations

In order to receive the incentive, the company should have been incorporated within the past eight years and no later than 31 December 2016. The tax relief is subject to the EU de minimis ceiling (total aid may not exceed €200,000 over any three-year period).

Guidelines around incentive applications

The election for the Innovative New Company status is made on the company's annual income tax return. As a matter of principle, the annual tax return must be filed within three months of each account year end. An advance ruling procedure is available to confirm eligibility.

TEC relief

(Allégements au titre de la contribution économique territoriale)

Description of benefits

Companies that performed certain types of activities within specific areas can benefit from a temporary TEC relief. The tax relief is applicable to the operations performed until 31 December 2013 for the areas qualified as regional aid areas and for SMEs in the SME investment aid areas. Taxpayers are required to seek preapproval to obtain the TEC relief.

Guidelines around incentive applications

The incentive is applicable for current and future investments. The request to benefit from the exemption from the local economic contribution has to be made on Form 1447-M-SD or Form 1447-C-SD for new companies. Form 1465-SD should be filed along with the forms. Form 1447-C-SD shall be filed no later than 1 January of the year that follows the year during which the company was created. Form 1447-M-SD shall be filed no later than the second working day following 1 May of the year preceding the year of taxation and for which the exemption is requested. The request to benefit from the exemption from property tax should be sent to the relevant property tax authority on plain paper, with a list of the properties concerned by the exemption. This request should be submitted before 1 January of the first year of application of the exemption.

Accelerated depreciation of equipment and tools used for research operations

(Amortissement dégressif des matériels et outillages destinés aux opérations de recherche)

Description of benefits

Equipment and tools mainly used for R&D operations can be subject to an accelerated amortization. The applicable coefficients are 1.5, 2 and 2.5, depending on the standard duration of amortization of the equipment or the tools for tax purposes. The plant and equipment must be primarily (but not exclusively) used for R&D operations eligible for the R&D tax credit.

Guidelines around incentive applications

The incentive is applicable for current and future investments. The amortization has to be booked in the accounts of the company. Form 2055 should also be filed along with the company's annual tax return.

Eligibility requirements

In order to qualify as an eligible R&D activity, the following conditions must be met:

- ▶ The activity must be part of a recognized R&D process.
- ▶ The objective sought must meet the originality or substantial improvement criteria.

In addition, only these main activities are eligible:

- ▶ Fundamental research that contributes to the analysis of properties, structures and physics
- ▶ Applied research that aims to identify possible applications for the results of fundamental research or find new solutions, allowing the company to reach a specific objective
- ▶ Experimental development that is carried out through the development of prototypes or pilot installations

R&D activities must outperform general practices used in the field of application and must rely on advanced professional skills from scientists and engineers, distinct from the know-how commonly used in the profession. Consequently, R&D activities cannot rely on the design and implementation of conventional solutions. Commercial relevance of the activities (new products or services) or the simple fact that the activity is new or innovative is not sufficient for R&D tax credit eligibility.

Expenses related to subcontracted R&D functions are also eligible. Indeed, companies can outsource R&D to private or public organizations, associations or individual experts. In all cases, the subcontractor is required to possess a certificate of approval delivered by the French Ministry of Research. For the R&D tax credit and the Innovative New Company status, qualifying expenses include personnel expenses, operating expenses, costs related to patent maintenance, costs related to defense and technological development monitoring, and expenses incurred for technological watch. However, the qualifying expenses are not limited to these.

The R&D incentives apply to all industry sectors, so long as there is an R&D activity performed in the French territory.

Specific eligibility requirements for each R&D incentive

R&D tax credit

- ▶ In principle, R&D activities falling into the scope of the R&D tax credit are the scientific and technical activities for:
 - ▶ Fundamental research
 - ▶ Applied research
 - ▶ Experimental development
- ▶ The French Tax Code provides a list of expenses eligible to the R&D tax credit (e.g., personnel expenses, operating expenses, costs related to patent maintenance, costs related to defense and technological development monitoring, expenses incurred for technological watch).

Cash grants for collaborative R&D projects

- ▶ Important eligibility criteria include the economic impact these products may have on the French territory in terms of employment (notably job creation), investment (reinforcing industrial sites) and branch structuring.

Innovative New Company status

- ▶ The company must fulfill the following conditions:
 - ▶ Be no more than eight years old
 - ▶ Be an SME, as defined by EU regulations (i.e., with less than 250 employees, a turnover not exceeding €50 million and/ or an annual balance sheet total not exceeding €43 million)
 - ▶ Be truly new
 - ▶ Be independent
 - ▶ Have R&D spending that accounts for at least 15% of expenses
- ▶ The French Tax Code provides a list of expenses eligible to the R&D tax credit (e.g., personnel expenses, operating expenses, costs related to patent maintenance, costs related to defense and technological development monitoring, expenses incurred for technological watch).

Reduced CIT treatment of revenues derived from patents

- ▶ Scope: (i) Patents, (ii) patentable inventions and (iii) associated industrial/manufacturing processes that can be viewed as an essential element for the patent or patentable invention and that are licensed together with the related patent or patentable invention
- ▶ Conditions: (i) Intangible asset that qualifies as a fixed asset, and (ii) two-year holding period for IP rights acquired (taxation at standard CIT rate during the first two years following the acquisition) and no minimum holding period of IP rights resulting from the R&D activity of the licensing/seller company

IP and jurisdictional requirements

For jurisdictional requirements, please refer to the eligibility requirements specified for each incentive

Technology or innovation zones

There are 71 “innovation clusters” in France that are spread across the country and have been bringing together teachers, researchers and industry stakeholders to develop collaborative R&D projects – in all key technology sectors – that are eligible for state and local aid (€2 billion granted over three years through direct financial aid and tax exemptions). Based on the most recent data available, nearly 7,000 companies, including 500 foreign companies, now belong to a cluster in France.

Role of governmental bodies in administering incentives

R&D tax credit

- ▶ The R&D tax credit is managed by the French tax authorities and the French Ministry of Higher Education and Research.
- ▶ No preapproval is required. An advance ruling process is available to determine eligibility for tax credits; however, it is time consuming, and taxpayers do not always receive responses during the process. As such, most taxpayers file for tax credits rather than going through the advance ruling process.
- ▶ There is an automatic tax audit if a tax credit exceeds €1 million. If the credit amount exceeds this amount, the tax audit tends to be significantly scrutinized (e.g., providing supporting documentation for every project).
- ▶ Tests on controls (by Government) are conducted on an average of 10% to 20% of the overall projects qualifying for the incentives, and taxpayers are advised to take consistent approaches in preparing documentation.
- ▶ Documentation must be prepared in French language.
- ▶ The R&D tax credit rate has been increased from 10% to 30% since 2007.

Cash grants for collaborative R&D projects

- ▶ Various public agencies deal with the collaborative R&D projects:
 - ▶ Fonds Unique Interministériel and Projets Structurants des Pôles de Compétitivité: the agency is in charge of competitiveness cluster grants (pôles de compétitivité).
 - ▶ National Agency for Research (L'Agence Nationale de la Recherche): the agency finances R&D projects, including those involving private companies.
 - ▶ Investissements d'Avenir: the agency provides some limited period grants.
 - ▶ OSEO: the agency provides specific grants for identified projects, such as strategic industrial innovation projects or zero rate loans for innovation.
 - ▶ L'ADEME: the agency finances R&D projects in the renewable energies sector.

Administrative requirements

R&D tax credit

- ▶ Detailed documentation is required for control purposes and should include detailed factual information (e.g., objective of projects, costs and calculation of the credits). The documentation also requires support on eligibility of the activity and R&D tax incentives related to the activity. This documentation has to be provided to the French tax authorities upon request, within the course of a tax audit. The company should file Form 2069-A each year with its tax return.

Cash grants for collaborative R&D projects

- ▶ A specific demand should be built, and an acceptance process of several steps has to be passed to be granted the money (reimbursable to administration most of the time in case of success).

TEC relief

- ▶ The requested forms (1447-M-SD/1447-C-SD and 1465-SD) should be filed to the relevant corporate tax offices within the aforementioned deadlines. The forms have to be fulfilled as if the company did not benefit from a relief. Therefore, all the information required by the French tax authorities to assess the territorial economic contribution should be mentioned in the forms (e.g., address, nature, size of the premise, number of employees).

Reduced CIT treatment of revenues derived from patents

- ▶ Election should be made on the annual corporate tax return.

Innovative New Company status

- ▶ The election for the Innovative New Company status is made on the company's annual income tax return. An advance ruling procedure is available to confirm eligibility.

Statutory reference

- ▶ R&D tax credit: Section 244 quarter B of the French Tax Code
- ▶ Innovative New Company status: Section 44 sexies – 0 A of the French Tax Code
- ▶ Reduced CIT treatment of revenues derived from patents: Section 39 terdecies of the French Tax Code
- ▶ Territorial economic contribution relief: Section 1465 of the French Tax Code
- ▶ Accelerated depreciation of equipment and tools used for research operations: Section 39 AA quinquies of the French Tax Code



Germany

Germany

This chapter is based on information current as of 15 March 2014.

EY contact:

Frank Burkert

frank.burkert@de.ey.com

+49 40 36132 21155

Kerstin Haase

kerstin.haase@de.ey.com

+49 40 36132 20284

Overview

In line with the Europe 2020 strategy, which aims at “smart, sustainable and inclusive growth,” Germany has made a significant commitment to spend around 3% of national GDP per year on R&D activities and to improve the conditions for R&D investment by the private sector.¹ Therefore, generous public funding programs are in place to support private investment in innovation and research.

Incentives for R&D activities are available in the form of nonrefundable cash grants which have a positive influence on earnings before interest and tax (EBIT). These R&D incentives are provided on a “project basis” instead of a “company basis.” The majority of the funding instruments available in Germany are discretionary in nature, and funding is available for R&D projects in specific thematic areas. The Government has discussed the implementation of a wider tax incentive regime for R&D activities, but it is not expected to be implemented in the foreseeable future.

2013 tax rates

Top corporate income tax rate
(federal and state average)

22.83%-33%²
(depending on
local tax rates)

Standard VAT rate

19%³

¹ Europe 2020 targets for the whole EU and individual Member States are available at http://ec.europa.eu/europe2020/pdf/targets_en.pdf.

² Sec. 23 para. 1 KStG (German corporation tax law). The rate consists of the top federal rate of 15%, solidarity surcharge of 5.5% on corporate income tax, and local trade tax rates between 7% and 17.15%.

³ A reduced rate of 7% applies in many areas.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Various types of grants
Types of incentives	▶ Cash grants

Cash grants

Description of benefits

R&D activities performed in Germany may be funded at the regional, national and EU level. The typical duration of a project is between 18 and 36 months. In principle, the funding quota ranges from 25% to 75% of eligible costs, depending on the size of the company, the research category of the project, and whether or not the project is conducted in cooperation with other companies or research institutes.

Large companies may typically receive funding of up to 50% for eligible costs for industrial research projects, while the aid intensity for SMEs in this category may be higher. Large companies are often required to collaborate with other project partners in order to fulfill the funding requirements of different programs and receive funding.

Programs at the state level (Länder) are generally thematically open and aim to support the regional economy. Federal programs are open to a wide range of eligible industries and are therefore not limited to specific sectors. R&D funding is available to enterprises of all sizes as well as to R&D institutions. Banks and financial services companies, however, are usually excluded from eligibility.

Generally, funding programs cover thematic areas such as:

- ▶ Climate and energy
- ▶ Health and nutrition
- ▶ Mobility
- ▶ Security
- ▶ Communication

Funding is granted to key technologies that act as innovation drivers, particularly:

- ▶ Information and communication technologies (ICT)
- ▶ Materials technologies
- ▶ Biotechnology
- ▶ Nanotechnology
- ▶ Microsystems technology
- ▶ Innovative services

The European Commission (EC) may also provide funding for R&D activities performed in Germany, as well as other EU Member States. European Commission programs typically require collaboration with partners from different European countries.

Guidelines around incentive applications

Public funding of R&D projects is regularly awarded as part of a competitive process. One of the main selection criteria is the project's level of innovation as well as the expected impact. In addition, the effects of the incentive must be clearly stated.

Application procedures involve either a one- or two-stage process, depending on the respective funding program. Before the formal process begins, a review of a project's merits with the relevant project management agency is recommended. At the regional level, funding programs sometimes follow a one-step application process. In general, a two-stage application process applies for all federal and state R&D programs. For the first stage, the applicant submits only a short project outline to the relevant project management agency for valuation purposes. In general, the project outline provides a brief summary of the project idea, its technical risks, the necessity of funding, a work plan, and a short plan detailing how the project will be financed and how the results will be exploited. If the project outline passes evaluation, the applicant is invited to submit a full project application, which the project management agency then assesses. The respective ministry in charge will make the final decision on whether the project will be funded.

Eligibility requirements

All of the funding programs relate to future R&D activities and R&D-related expenditures. As a general rule, a company must not have started project implementation before the application for funds has been submitted and the funding authority has sent out the grant notification to the applicant. After the funding authority has approved the R&D grant, the company may start implementation of the project. The application/granting process usually takes between six and twelve months.

Qualifying activities include fundamental research, industrial research, experimental development and demonstration activities. The costs eligible for funding are project-related and include:

- ▶ Personnel costs
- ▶ Materials and equipment
- ▶ Travel costs
- ▶ Subcontractors
- ▶ Amortization
- ▶ Overheads

Funding for subcontracting costs is granted only if it can be proven that the subcontractor adds a compelling advantage to the project and the grant recipient is not able to implement the task by means of his or her own capacities. In general, the applicant is obliged to tender the subcontracting task and must obtain at least three offers.

In principle, national funding guidelines require that the recipient of the R&D grant has an own legal entity in Germany (or in the case of funding at the state level, in the corresponding state) and that the R&D activities and eligible costs from the project are incurred in Germany.

State support for large projects with large incentives exceeding €7.5 million per undertaking is generally subject to obligatory notification and approval by the European Commission (EC).

IP and jurisdictional requirements

The exploitation of the project results must predominantly take place within Germany (and/or in the corresponding federal state). In principle, several exploitation scenarios can be set up but it is necessary to assess them on a case-to-case basis in order to be able to allow a final statement.

Technology or innovation zones

There are no technology or innovation zones providing R&D tax incentives in Germany.

Role of governmental bodies in administering incentives

Some programs are subject to specific deadlines, while others allow the ongoing submission of proposals. As stated above, the approval of the funding authority is necessary to start the project. Typically, the respective government ministries (the ultimate funding authorities) engage project management agencies to evaluate applications, to administer the call of funds and to monitor the beneficiaries' compliance with funding requirements.

The money granted by the funding authority is reimbursed after project costs are incurred. This means that the cash flow proceeds during the progress of the project. In practice, funding is claimed regularly on a federal and regional level within the grant period. After the claim for funds, where the eligible costs for the specific time frame are listed and the interim report is submitted to the funding authority and reviewed, the eligible costs are refunded. At the EU level, pre-financing might be available. In general, cash grants are taxable.

Regarding future funding opportunities, it is worth mentioning that specific funding programs have been introduced in accordance with current political goals. Industry representatives and representatives of research organizations are regularly invited to contribute to the process of "topic finding." Therefore, it is advisable for companies to actively participate in this process to have a chance to place their R&D agenda in a political context and have a regular exchange of information with the policy makers.

Additionally, under the new Guidelines on regional state aid for 2014-20, the creation of new R&D centers (or production premises) can be funded in specific regions in Germany. Conditional upon the creation of new permanent jobs and further funding conditions, capex investments for large enterprises can be funded up to 20%, depending on the region.

Administrative requirements

After the acquisition of the cash grant, it is necessary to comply with the funding regulations and other project specific conditions. A special focus is made on documentation requirements that are required to be fulfilled. Furthermore, the method of calculating eligible costs must be in compliance with the funding regulations. The administration of public funding requires effort and capabilities on the recipient's part in terms of organization and documentation, but if an administration system is established within the company right from the beginning, the process is manageable.

Statutory reference

- ▶ EU legislation
 - ▶ Community Framework for State Aid for Research and Development and Innovation (2006/C 323/01)
 - ▶ Commission Regulation (EC) No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Art. 87 and 88 of the Treaty (General Block Exemption Regulation)
 - ▶ Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC)
- ▶ National legislation
 - ▶ Federal level
 - ▶ General Conditions of the Federal Ministry of Research and Education for the Allocation of Benefits for R&D Activities to Commercial Companies on a Cost Basis as of April 2006 (NKBF 98-Nebenbestimmungen für Zuwendungen auf Kostenbasis des BMBF an Unternehmen der gewerblichen Wirtschaft für Forschungs- und Entwicklungsvorhaben)
 - ▶ New regional aid map for Germany: www.bmwi.de/BMWi/Redaktion/PDF/foerdergebietskarte-ab-07-2014,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf. Please note: The funding guidelines are currently being elaborated and thus funding conditions (e.g., funding quota) might be subject to change
 - ▶ State level
 - ▶ Calls on specific thematic areas are published regularly, and the application period usually lasts two to three months. The funding calls are published in the official gazette on the federal and state levels.
- ▶ Further regulations may apply.



Hungary

Hungary

This chapter is based on information current as of 15 March 2014.

Overview

The Hungarian Government encourages R&D related activities and the Government is very supportive of R&D investments. The R&D incentive regime in Hungary has become mature, well-known, and well utilized by taxpayers. Further, the Hungarian Government is introducing new elements and definitions to clarify uncertainties and facilitate R&D activities in Hungary.

Currently, cash grants and tax incentives are available for eligible R&D infrastructural investments and R&D project costs. The Hungarian R&D incentive regime could be beneficial for a wide range of investors depending on their fact patterns and business goals and many of the elements of the incentive system may be combined to achieve optimum results.

2014 tax rates

Top corporate income tax rate (national and local average)	19% ¹
Standard VAT rate	27% ²

¹ Section 19 of the Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

² Section 82(1) of the Act CXXVII of 2007 on VAT.

EY contacts:

Tibor Palszabo
tibor.palszabo@hu.ey.com
+36 1 451 8601

Orsolya Ignácz
orsolya.ignacz@hu.ey.com
+36 1 451 8625

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	VIP cash grant*	Corporate tax credit	Double deduction of R&D costs	Reduced social security contribution and training fund contribution for researchers	Corporate tax exemption of 50% on royalty income	Reduced local business tax base and innovation contribution base
Types of incentives	► Cash grants	► Tax credits	► Super deduction	► Tax credits ► Tax allowance	► Reduced tax rate	► Tax allowance

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

VIP cash grant

(A Kormány egyedi döntésével megítélhető regionális beruházási támogatás)

Description of benefits

A nonrefundable cash grant is available. The cash grant amount depends on the location and nature of the investments. The grant is paid out as costs incur, and the maximum cash grant amount is typically capped at a certain percentage of the total investment amount. Taxpayers must seek preapproval to obtain cash grants.

Guidelines around incentive applications

Cash grants are applicable to future investments. Taxpayers may claim cash grants as they incur costs. They must maintain appropriate records and administration for the claims to be accepted by the Hungarian authorities.

Corporate tax credit

(Fejlesztési adókedvezmény)

Description of benefits

A tax credit is available to decrease the CIT liability for a period of 10 tax years.³ The maximum tax credit amount depends on the location and value of the investment and can decrease the annual corporate tax liability by up to 80%. The tax credit may be applied together with cash grants. Unutilized tax credits cannot be carried forward once the 10-year statutory deadline has lapsed. Preapproval from the Ministry for National Economy and the Government is required if the investment value exceeds €100 million.

Guidelines around incentive applications

The corporate tax credit is applicable to future investments. Taxpayers may claim the CIT credit in their annual CIT return for 10 years from or following the year in which the investment is put into operation. The tax return is due by 31 May following the given tax year (assuming that the business year corresponds to the calendar year) and should be submitted to the Hungarian tax authority electronically.

³ CIT rate in Hungary is 10% up to the first HUF500 million of the tax base and 19% for the excess.

Double deduction of R&D costs

(K+F költségek dupla levonhatósága)

Description of benefits

The direct costs of R&D or the depreciation of capitalized R&D costs incurred in a given tax year are deductible twice for CIT purposes: once as an expense, second as a CIT base deduction item.

Guidelines around incentive applications

The double deduction is applicable to past and current investments. Taxpayers claim the double deduction of the eligible R&D costs in their annual CIT return. The tax return is due by 31 May following the given tax year (assuming that the business year corresponds to the calendar year) and should be submitted to the Hungarian tax authority electronically.

Reduced social security contribution and training fund contribution for researchers

(Szociális hozzájárulási adókedvezmény és szakképzési hozzájárulás alap kedvezmény kutatók foglalkoztatásáért)

Description of benefits

A tax allowance is available to companies employing researchers with scientific degrees or academic titles (including students applying for these titles). Under the incentive, the social contribution tax as well as the training fund contribution on these employees' wages will be 0% (instead of 27% and 1.5%, respectively), capped at a gross monthly wage of HUF500,000. These allowances are available with no specific time limitation.

Guidelines around incentive applications

The incentive is applicable to current costs.

Reduced social security contribution

Taxpayers may apply the R&D-related social security contribution allowance in their monthly tax return, which is due by 12th day of the month following the corresponding month and should be submitted to the Hungarian tax authority electronically.

Training fund contribution base allowance

Taxpayers may apply the R&D-related training fund contribution base allowance in the annual tax return, which is due by 12th day of the month following the tax year and should be submitted to the Hungarian tax authority electronically.

Corporate tax exemption of 50% on royalty income

(50%-os társasági adóalap-kedvezmény jogdíjbevétel után)

Description of benefits

The incentive allows for 50% of the royalty income to decrease the CIT base (i.e., to be treated as exempt from CIT).

Guidelines around incentive applications

The incentive is applicable to current revenues. Taxpayers claim the 50% CIT exemption on royalty income in the annual CIT return. The tax return is due 31 May following the given tax year (assuming that the business year corresponds to the calendar year) and should be submitted to the Hungarian tax authority electronically.

Reduced local business tax base and innovation contribution base

(Helyi iparűzési adóalap-kedvezmény és innovációs járulék alap-kedvezmény)

Description of benefits

All direct costs of R&D in a given tax year are deductible from the local business tax base and from the base of the innovation contribution. The direct costs include costs incurred exclusively in relation to the R&D activities and indirect costs that can be allocated to the R&D activity (project) by using a proper allocation ratio. These costs would not be deductible for the purposes of these taxes in the absence of this specific incentive.

Guidelines around incentive applications

The incentive is applicable to current expenses. Taxpayers claim the R&D-related local business tax base allowance and innovation contribution base allowance in the annual local business tax and innovation contribution return, which are due 31 May following the year when the costs are incurred (assuming that the business year corresponds to the calendar year). A local business tax return should be filed with the local municipality where the taxpayers carry out business activities, and the innovation contribution return should be submitted to the state tax authority.

Eligibility requirements

VIP cash grant

The VIP cash grant and the corporate tax credit qualify as state aid. Generally, the so-called sensitive industries (e.g., steel, textiles) are excluded from the state aid system. Companies with agricultural production and processing activities are eligible with certain restrictions. Otherwise, no industry restrictions are applicable in relation to the incentives. VIP cash grants are provided to strategic investors accomplishing R&D-related asset and infrastructural investments. To qualify for the grant, a company is required to invest at least €10 million in assets and has to create at least 10 new jobs related to the R&D investment. The qualifying expenses are the related capital expenditure (CAPEX) costs.

Corporate tax credit

Companies may utilize R&D tax credits for R&D-related asset and infrastructural investments. The investment value should reach HUF100 million at present value. No job creation is required. The qualifying expenses are the related CAPEX costs.

Double deduction of R&D costs

Qualifying R&D activities are activities carried out using the company's own assets and employees either for its own purposes or based on the order of another entity or as activities carried out with another entity based on a specific R&D agreement. If the Hungarian entity is only financing the R&D, the results of the R&D activities must be utilized in Hungary in order to benefit from the deduction. Effective 1 January 2014, based on the decision of the taxpayer, the CIT base can be decreased by the direct R&D costs of the taxpayer if certain conditions are met.

Reduced social security contribution and training fund contribution for researchers

The company is required to be recognized as a research center and has to employ researchers and scholars (including students applying for scientific titles) as defined by the legislation. The deduction can be utilized based on the gross wage costs of the research employees up to a certain limitation.

Corporate tax exemption of 50% on royalty income

The company must receive royalties in order to receive the incentive. Half of the income accounted for as a royalty as per Hungarian legislation decreases the CIT base.

Reduced local business tax base and innovation contribution base

Qualifying costs include direct R&D costs.

IP and jurisdictional requirements

For certain benefits, IP must be registered and owned locally. Qualifying IP property includes patent, know-how and trademark/brand. Types of income include income from the use or sale of qualifying IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Hungary.

Role of governmental bodies in administering incentives

VIP Cash Grant

- ▶ Ministry for National Economy: decision-maker
- ▶ Ministry for National Development: approver of grant amount
- ▶ Hungarian Investment and Trade Agency: operative agency
- ▶ MAG Zrt.: monitoring and payment authority
- ▶ National Tax and Customs Administration: auditor of utilization

Corporate tax credit

- ▶ Ministry for National Economy: decision-maker
- ▶ National Tax and Customs Administration: auditor of utilization
- ▶ Hungarian Intellectual Property Office: authority to evaluate R&D content

Double deduction of R&D costs and corporate tax exemption of 50% on royalty income

- ▶ National Tax and Customs Administration – auditor of utilization

Reduced social security contribution and training fund contribution for researchers

- ▶ National Tax and Customs Administration – auditor of utilization

Administrative requirements

- ▶ The compliance process for obtaining the incentives or grants has become less onerous, especially for the VIP cash grant. The application processes are streamlined, and the administration is fairly manageable.
- ▶ R&D tax credit is utilized through the CIT return.
- ▶ Super deduction from the CIT base and tax exemption in relation to royalties has to be indicated in the CIT return.
- ▶ The deduction of social security contribution has to be indicated in the social security contribution return.
- ▶ The National Tax and Customs Administration does not question R&D deductibility during a tax audit if a taxpayer has the written evaluation of the Hungarian Intellectual Property Office confirming the R&D content of the project.

Statutory reference

- ▶ The state aid regime will significantly change from 2014 due to the new EU programming period for 2014 and 2020. State aid rules will be more stringent.
- ▶ The listed incentives are regulated in the following acts and decrees:
 - ▶ Act LXXXI of 1996 on Corporate Tax and Dividend Tax
 - ▶ Decree No. 206/2006 (X.16.) of the Hungarian Government on Corporate Tax Credit
 - ▶ Section IX. of the Act CLVI of 2011 on Social Contribution Tax
 - ▶ Decree No. 270/2012 (IX.25.) of the Hungarian Government on Regional Investment Subsidies Granted by Individual Government Decision



India

India

This chapter is based on information current as of 15 March 2014.

EY contact:

Hitesh Sharma

hitesh.sharma@in.ey.com

+91 22 6192 0620

Overview

The Government of India has a progressive outlook toward R&D activities undertaken in India, and continues to promote such activities, focusing strongly on the science and technology fields. This is evident from the ambitious programs the Government has launched which cover the following objectives:

- ▶ An increase in support to R&D
- ▶ An improvement in pool of scientific manpower
- ▶ An improvement in India's R&D infrastructure
- ▶ Implementation of flagship programs at the national level in order to improve technological competitiveness of Indian industries
- ▶ The establishment of research facilities and centers of scientific excellence on par with some of the most globally-renowned facilities

Further, the Government has been continuously supporting R&D activities and seeks to provide an environment that offers the growth of a knowledge-based economy through implementing effective fiscal policies and incentivizing investments in R&D through tax and other benefits. The Government offers various tax benefits in the form of super deductions on revenue expenditure, accelerated depreciation on capital expenditure, tax exemptions, tax holidays for setting up units in specified areas and indirect tax benefits, such as customs duty exemptions on import of specified goods for the agrochemical sector and for companies having in-house R&D unit and excise exemptions available for research institutes. In addition to the above, the Government has also created a Technology Development Board to provide financial support to industrial concerns from undertaking R&D activities in the field of technology.

Alongside the fiscal incentives provided by the federal Government, various states in India offer incentives, such as stamp duty waiver and concessions, VAT-related subsidies and soft loans, exemptions or refund of entry taxes and octroi (a local tax which is collected on various articles brought into a district for consumption) and subsidies related to social security contributions.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

2014 tax rates

Top corporate income tax rate
(national and local average)

- ▶ Domestic companies 33.99%^{1 2}
- ▶ Foreign companies 43.26%³

Standard/reduced VAT rate

- ▶ Central excise duty is levied on goods manufactured in India – generic effective rate 12.36%
- ▶ State VAT on sale and purchase of goods 4%/5% or 12.5%/15%
(depending on the nature of goods)

Incentives available

Names of incentives	Deductions for expenditure on scientific research	Deductions for expenditure on scientific research by manufacturing entities*	Deductions for contributions for R&D	Tax holiday on export profits earned by units set up in Special Economic Zones (SEZs)*	Funding for R&D activities in technology	Customs duty exemption and concession	Excise duty exemption (research institutes)	Financial Assistance under M-SIPS and EMCs schemes
Types of incentives	▶ Accelerated depreciation on capital assets	▶ Super deduction	▶ Super deduction	▶ Tax holiday	▶ Cash grants ▶ Loans ▶ Financial support	▶ Tax exemptions ▶ Reduced tax rates	▶ Tax exemptions	▶ Financial support

* Although not based upon scientific analysis, general industry consensus is that these two incentives deliver the most beneficial results to investors.

¹ "EY India Budget Plus 2013."

² The tax rate of 33.99% is applicable where the total income is more than INR100 million. However, where the total income is more than INR10 million but less than INR100 million the tax rate is 32.45%. Further, tax rate of 30.90% is applicable where the total income is equal to or less than INR10 million.

³ The tax rate of 43.26% is applicable if total income is more than INR100 million. However, if the total income is more than INR10 million but less than INR100 million, the applicable tax rate is 42.02%. Further, tax rate of 41.2% is applicable if the total income is equal to or less than INR10 million.

Deductions for expenditure on scientific research

Description of benefits and eligibility requirements

A 100% deduction is available to all industries on revenue and capital expenditures (other than expenditures incurred for the acquisition of land) paid out or expended in scientific research related to the business. Further, where any expenditure is incurred before business commences in order to pay salaries to employees engaged in scientific research or to purchase materials used in scientific research, all such expenditures as certified by the Director General of Income Tax (Exemptions) (DGIT(E)) and the Department of Scientific and Industrial Research (DSIR) within three years immediately preceding the commencement would be allowed. NOL resulting from the deductions may be carried forward for eight years.

Guidelines around incentive applications

To claim the deduction for retroactive investments, the expenses should be incurred within three years of the commencement of business. The deduction may be claimed in connection with retroactive investments in the year of business commencement by filing a tax return within the time prescribed for the financial year in which the expenditure is incurred.⁴ Retroactive expenses incurred prior to the commencement of business may be claimed if they are certified by the DGIT(E) and DSIR.

⁴ As per the current tax laws, the due date of filing a return of income is 30 September following the end of the relevant financial year where transfer pricing provisions are not applicable. However, the date is further extended to 30 November following the end of the relevant financial year where transfer pricing provisions are applicable.

Deductions for expenditure on scientific research by manufacturing entities

Description of benefits and eligibility requirements

A weighted deduction of 200% is available for scientific research on in-house R&D expenditure as approved by the DGIT(E) and DSIR, including capital expenditures (other than land and buildings) by companies engaged in manufacturing and the production of articles and things except for those articles or things specified in the Eleventh Schedule⁵ or for companies engaged in the biotechnology business. Expenditures on scientific research include expenses incurred performing clinical drug trials, obtaining approvals from regulatory authorities and filing patent applications. NOLs resulting from the deduction amount may be carried forward for eight years.

Guidelines around incentive applications

- ▶ The incentive is applicable to future investments. The deduction may be claimed in the year the expenditure is incurred in by filing the details of the expenditure for the relevant financial year before the DSIR on or before 31 October following the end of the relevant financial year and by claiming the deduction in the income tax return within the time prescribed for the relevant financial year.
- ▶ Per current tax laws, the deduction will be available for capital and revenue expenditure (other than the cost of land and buildings) incurred in an in-house R&D center on or before 31 March 2017.
- ▶ Specific DSIR approval is required in order to take advantage of super deduction benefits.
- ▶ The company will be eligible for the super deduction only if it enters into an agreement with the DSIR for cooperation in an R&D facility and for audit of the accounts maintained for that facility.

⁵ Examples of items specified in the Eleventh Schedule include beer, wine, alcoholic spirits, tobacco and tobacco preparations, cosmetics and toilet preparations, toothpaste, dental cream, tooth powder and soap, aerated waters, confectionary and chocolates, gramophones, projectors, photographic equipment and office machines, such as calculators and cash registers.

Deductions for contributions for R&D

Description of benefits and eligibility requirements

Deductions may be granted only in relation to the approved entities to which a donation or contribution is being made. The deductions available are as follows:

- ▶ Weighted deduction of 200% is granted to assesseees for any sums paid to a national laboratory, university or institute of technology, or specified persons with a specific direction that the said sum would be used for scientific research within a program approved by the prescribed authority. The prescribed authority in the case of a national laboratory, university or institute of technology is the head of the institution, and in the case of a specified person, it is the Principal Scientific Adviser to the Government of India.
- ▶ Weighted deduction of 175% is available for contributions made to approved institutions (e.g., research associations, universities, colleges) to be used for scientific research. An approved institution is a research association, university or college that has been approved and notified in the Official Gazette, by the Central Government.
- ▶ Weighted deduction of up to 125% is available for contributions made to any company engaged in scientific research. However, the following conditions must be satisfied in order to claim the deduction:
 - ▶ The company must be registered in India.
 - ▶ The main object of the company must be scientific R&D.
 - ▶ The company must be approved by the Chief Commissioner of Income Tax.
- ▶ Weighted deduction of up to 125% is available for contributions made to approved institutions (e.g., research associations, universities, colleges that undertake research in social science or statistical research) to be used for research in social sciences or statistical research.

To obtain approval, these entities must file the relevant forms before the prescribed authorities. NOLs resulting from the deductions can be carried forward for eight years.

Guidelines around incentive applications

The incentive is applicable to future investments. The deduction may be claimed based on the amount of contribution made to the approved entities by filing the income tax return within the prescribed time for the relevant financial year.

Tax holiday on export profits earned by units set up in special economic zones (SEZs)

Description of benefits and eligibility requirements

Incentives are available for companies engaged in providing R&D services under a service arrangement by way of export of services to a foreign principal. Such companies may set up their units in SEZs in order to secure the tax benefits. SEZ units engaged in export of goods and services from 1 April 2006 onwards are eligible to claim a 15-year, phased tax holiday (refer table below) on all export linked profits earned.

Quantum of deduction to SEZ unit	Period of deduction
100% of export profits	First five years
50% of export profits	Next five years
50% of export profits, provided the profits are transferred to a Special Economic Zone Reinvestment Reserve Account for the purposes of acquiring plant or machinery within 3 years.	Next five years

Export profits of SEZ units are calculated as follows:

- ▶ Profits of SEZ unit x [Export turnover of unit/Total turnover of unit]

Guidelines around incentive applications

Incentives are available to any unit set up in SEZs provided such unit is not formed by splitting up or reconstructing existing businesses. In addition, such an SEZ unit must not be formed by the transfer of previously owned plant and machinery. An enterprise may claim the deduction or benefit by filing its income tax return within the time prescribed for the relevant financial year.

The unit in an SEZ can be set up for following purposes:

- ▶ Manufacturing
- ▶ Providing services (which in turn, may include R&D services)
- ▶ Trading and warehousing

To set up a unit in an SEZ, preapprovals are required from the applicable development commissioner. A detailed application and procedural process is to be followed for seeking an approval.

Investment proposals in an SEZ qualify for bringing in funds in India under the automatic route, and no prior approval is required from the Exchange Control and Regulatory authorities for infusion of funds in India.

Separately, tax benefits may also be available to an enterprise engaged in the business of biotechnology or IT hardware on setting up a manufacturing facility (unit) anywhere in the Northeastern states of India. Tax holiday is available to such a unit for a period of 10 consecutive years; however, the deduction is restricted to profits of the unit on a stand-alone basis.

Funding for R&D activities in technology

Description of benefits

Support in the form of grants is provided by the DSIR to industrial R&D projects through the Technology Development Program (TDP) of DSIR. As per the project funding guidelines of TDP, the Technology Development Board (Board) invests in the equity capital or gives loans to industrial concerns and research associations that are attempting development and commercial application of indigenous technology or adapting imported technology to wider domestic applications. The Board also provides grants. However, this mode of funding is not particularly popular with multinational corporations, and grants are provided by the Board only in exceptional cases.

Guidelines around incentive applications

- ▶ Indian companies, cooperatives and research associations are eligible to seek funding from the Board. Further, domestic R&D institutions such as national and state laboratories, academic institutions, cooperative research associations, in-house R&D units recognized by the DSIR and commercial R&D companies recognized by the DSIR can also apply for funding.
- ▶ The most common form of Board funding is concessional loan assistance, which comes with a number of conditions, including payment of royalty on sales generated during the term of the loan.
- ▶ A second mode of funding provided by the Board is equity participation. Illustrative conditions for securing funding by way of equity include pledging of shares by promoters to the Board for a value equal to equity subscription by the Board.
- ▶ A further mode of funding is Board grants. However, the Board provides grants only in exceptional cases. The recipient of the grant may be required to pay the Board an amount equivalent to the grant received by it or share the profit proportionate to the grant received.

Financial Assistance under M-SIPS and EMCs schemes

Description of benefits and eligibility requirements

The Government of India offers a package of incentives to attract domestic and global investments into the electronics systems design and manufacturing (ESDM) sectors within Electronic Manufacturing Clusters (EMC). In this regard, the Government has provided investment-based incentives under the Modified Special Incentive Package Scheme (M-SIPS) and Electronic Manufacturing Cluster Scheme (EMCs).

Modified Special Incentive Package Scheme (M-SIPS)

The M-SIPS will be applicable to investments in ESDM units for expansion of capacity, modernization and diversification of existing ESDM units.

The financial incentives available under the scheme are:

- ▶ Subsidies equal to 25% of capital expenditure if the ESDM unit is in a non-SEZ and 20% of capital expenditure if the ESDM unit is within an SEZ. This capital expenditure subsidy is available for investments made within 10 years from the date of approval of the project.
- ▶ Reimbursement of countervailing duties (CVD) and excise duties on capital equipment for non-SEZ units.
- ▶ Reimbursement of central taxes and duties (i.e., custom duties, excise duties and service tax) for 10 years in the selected high-tech units, such as fabs, semiconductor logic and memory chips, and LCD fabrication.

The incentives also require minimum investment thresholds for various categories and sub-categories of eligible products. The minimum investment thresholds vary from INR10 million (for mobile phone and accessories) to INR 50billion (for memory fabrication).

In order to be eligible for the incentive, manufacturing units must be set up in the Notified Greenfield or Brownfield Electronics manufacturing cluster. In addition, the manufacturing unit must be engaged in manufacturing of products across the ESDM value chain: raw materials, components, designs and chips, assembly, testing, and R&D and packaging.

Electronic Manufacturing Cluster (EMCs)

The Government offers financial assistance for the development of Greenfield and Brownfield EMC:

- ▶ Assistance up to 50% of the project cost is available. The incentive is subject to a ceiling of INR0.5 billion for every 100 acres of land, in case of Greenfield EMC.
- ▶ Assistance up to 75% of the project cost is available. The incentive is subject to a ceiling of INR0.5 billion, in case of a brownfield EMC.

Implementation of the scheme is made through a Special Purpose Vehicle (SPV) that will carry out the business of developing, operating and maintaining the infrastructure, amenities and other common facilities created in the EMCs. SPV should be a legal entity (i.e., company or society) that is duly registered. SPV can be promoted by private companies, industry associations, financial institutions, R&D institutions, state or local governments, or their agencies and units within the EMC. The selection and location of the EMC under the scheme shall be approved by the relevant Government authorities.

Guidelines around incentive applications

Modified Special Incentive Package Scheme (M-SIPS)

The scheme has a sunset clause of 26 July 2015. Accordingly, applications made by 26 July 2015 and approved by the Government will be eligible for the incentive if the investment occurs within 10 years of the date of approval. Therefore, an investment made prior to the date of approval may not be eligible for the incentive. However, investments in land (but only up to 2% of the total land costs) made up to six months before the date of approval of the project will be considered for calculation of eligible incentives under the scheme.

Incentives may not be availed for retroactive investments except for land costs. After approval, the incentive will be released after the end of the financial year in which the investment exceeds the minimum prescribed threshold. Such incentive may be claimed by filing the requisite documents with Department of Electronics and Information Technology (DEITY). However, DEITY has not specified the precise mechanism for disbursement of incentives under the scheme.

Electronic Manufacturing Clusters (EMCs)

An application for obtaining the financial assistance in relation to EMC scheme may be made to DEITY up to 22 October 2017.

Incentives are applicable to current and future investments made after the date of approval. Therefore, an investment made prior to the date of approval may not be eligible for such incentives. Incentives may not be availed for retroactive investments. The first installment of 20% of the approved incentives will be released in advance. The subsequent installments will be released as follows:

- ▶ The second installment of 30% of approved incentive will be released after utilization of 80% of first the installment.
- ▶ The third installment of 30% of approved incentive will be released after utilization of 80% of the second installment.
- ▶ The final installment of 20% of approved incentive will be released after the successful completion of the project.

Customs duty exemption and concessions

Description of benefits and eligibility requirements

A customs duty exemption is available on the import of specified goods for use by the agrochemical sector for R&D purposes or by companies with an in-house R&D unit, subject to conditions. Similarly, a concessional rate of customs duty is available on import of specified instruments, equipment or components by research institutions (other than hospital), subject to conditions.

Guidelines around incentive applications

Customs duty exemptions and concessions are applicable to current investments made. No particular forms have been prescribed under the Indian Customs legislation for claiming the aforementioned customs duty exemption or concessional rate of duty. However, certificates and approvals (as per relevant notification) would need to be produced for customs authorities at the time of clearing the imported instruments, equipment or components to avail such exemption or concession as the case may be.

The customs duty exemption and concession is available subject to fulfillment of specified conditions prescribed under the relevant notification, such as:

- ▶ The goods imported should not be sold or transferred within five years from the date of importation (or seven years from date of installation in the case of the agrochemical sector).
- ▶ The unit or institute importing the goods must be registered with DSIR and other Governmental authorities (as the case may be).
- ▶ Certification from relevant authorities or agencies is required regarding the value of exports and goods imported for R&D purpose, essentiality of imported goods for R&D activities, etc. (to avail the exemption/concession benefits).

Excise duty exemption (research institutes)

Description of benefits

An excise duty exemption is available for the local procurement of specified instruments, equipment, components, etc., by research institutions (other than hospitals), subject to conditions.

Guidelines around incentive applications

The excise duty exemption is applicable on supply of specified instruments, equipment or components manufactured in India to research institutions (other than hospitals). Further, the manufacturer and seller is required to obtain the relevant certificates and approvals (as per relevant notification) from such research institutions and produced for excise authorities to claim the exemption.

The excise duty exemption is available subject to fulfillment of specified conditions as prescribed under the relevant notification, such as:

- ▶ The institute must be registered with the Government in the DSIR, and certification from the DSIR is required.
- ▶ In the case of a publicly funded research institute under the administrative control of the Department of Atomic Energy or the Department of Defense Research and Development of the Government of India, a certificate from the concerned department must be provided to the manufacturer of the goods.
- ▶ The goods should not be sold or transferred within five years from the date of installation.
- ▶ The head of the institute must provide certification stating that the goods are essential and used for research purposes.

State-level incentives

- ▶ Many states are keen to attract investments to set up new units and expand existing units to develop infrastructure, education and employment opportunities. For these purposes, the states offer many investment-linked incentives.
- ▶ The types of incentives offered include stamp duty waiver and concessions; state VAT-linked subsidies, soft loans and exemptions; exemption or refund of entry taxes and octroi; subsidies linked to social security contributions, and more.
- ▶ Incentives may be offered to specified industry sectors based on the size of the eligible investment, location, employment generation, nature of products, etc. No specific plan is provided for R&D; however, R&D companies are eligible to apply.
- ▶ The incentives offered may vary from state to state (under respective state industrial policies) with customization for megaprojects or investment in backward areas based on negotiations with the relevant state Government.

IP and jurisdictional requirements

Where the Indian company carrying out research does not own the IP (e.g., under a contract R&D model), there could be challenges in securing approvals claiming the weighted deduction of 200%, and it may not be effective because the weighted deduction could be restricted to "net expenditure." Apart from this, there are no restrictions with respect to holding IP rights to secure tax-related benefits.

Technology or innovation zones

As stated earlier, Indian tax regime provides for tax holiday on export profits earned by units set up in SEZ. The said incentive is discussed in greater detail on Page 93.

Role of governmental bodies in administering incentives

Incentives related to expenditure on scientific research, expenditure on scientific research by manufacturing entities and contributions to R&D

Involved Government agencies: DSIR part of the Ministry of Science and Technology, Director General of Income-tax (Exemptions).

The Government of India established the DSIR, an autonomous body and India's largest R&D organization. Further, the Government established the DSIR with a broad mandate to promote industrial research and to carry out activities relating to technology development. The DSIR is part of the Ministry of Science and Technology and carries out the activities relating to promotion, development, utilization and transfer of indigenous technology. The DSIR has carried out various programs and schemes aimed at promoting R&D. Because India provides various incentives and benefits to the private sector for R&D, the DSIR also acts as a nodal agency for the approval of benefits claims. The DSIR approves all scientific R&D activities carried out by research associations, colleges, universities, etc. Further, on completion of the R&D activity, the DSIR obtains a completion certificate from the research associations and considers a report of the activities carried out, results obtained and its further application for commercial exploitation.

Incentives related to export profits earned by units set up in an SEZ

Involved Government agencies: Ministry of Commerce and Industry, Department of Commerce.

The administration of each SEZ is governed by a three-tier administrative set-up. The Board of Approval is the apex body comprising 19 members from various ministries of the Government of India and headed by the Secretary, Department of Commerce. The Approval Committee at the zone level deals with approval of units in the SEZs and other related issues. Each zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.

The Board of Approval and the Central Government approve the set-up of SEZs. Subsequently, units are permitted to be set up in the SEZ. All the proposals for setting up units in the SEZ are approved at the zone level by the Approval Committee consisting of the Development Commissioner, Customs Authorities and representatives of state Government. All post-approval clearances, including grants of importer-exporter code numbers, change in the name of the company or implementing agency, broad banding diversification, etc., are given at the zone level by the Development Commissioner. The performance of the SEZ units is periodically monitored by the Approval Committee, and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

Incentives related to funding for R&D activities

Involved Government agencies: Technology Development Board, Department of Science and Technology

The Government has constituted the Technology Development Board. The Board manages and administers the fund created by the Government for technology development and application.

The Board accepts applications for financial assistance from all sectors of the economy and approves the granting of funds to the industrial concerns after a detailed evaluation.

Financial assistance related to M-SIPS and EMC

Involved Government agencies: Department of Electronics and Information Technology, Ministry of Communications & Information Technology, Government of India

The Department of Electronics and Information Technology (DEITY) will form one or more technical evaluation committees (TECs), which will provide recommendations in relation to the project submitted by the applicant. DEITY shall also constitute an appraisal committee to ensure timely consideration of the initial applications and follow-up applications.

DEITY shall process the recommendations of the Appraisal Committee for the approval of the competent authority. After receiving the approval of the competent authority, DEITY shall issue a letter communicating approval of the project.

Incentives related to customs

Involved Government agencies: Central Board of Excise and Customs

Regarding customs duty and excise duty (including customs and excise duty incentives in the form of exemptions and concessional rate of duty), the Ministry of Finance has established the Central Board of Excise and Customs to issue guidelines and notifications to administer the incentives.

Administrative requirements

Incentives related to expenditure on scientific research, contributions to R&D and for units set up in the Northeastern states of India

No particular forms have been prescribed under the tax laws for claiming a tax incentive. However, the assessee may claim the deduction by filing a tax return within the time prescribed for the financial year in which the expenditure is incurred.

Incentives related to expenditure on scientific research incurred by manufacturing entities

As noted, specific DSIR approval is required to secure the benefit of a weighted deduction of expenditures incurred by manufacturing companies with an in-house R&D facility. The DSIR, in most cases, conducts an inspection of the R&D unit before granting an approval. To secure a deduction for expenditures incurred on in-house R&D units, the following conditions must also be met:

- ▶ The R&D facility must not exist purely to carry out market research, sales promotion, quality control, testing, commercial production, style changes, routine data collection or activities of similar nature.
- ▶ Separate audited accounts (i.e., certified by a chartered accountant) for each R&D center must be maintained for each approved facility.
- ▶ A yearly statement must show the progress of implementation of the approved program to be submitted to the DSIR.
- ▶ The amounts of expenditures as certified by the DSIR and advised to the DGIT(E) are entitled to the weighted deduction. The weighted deduction is available on the "net" expenditure.
- ▶ Assets acquired with respect to developing scientific R&D facilities shall not be disposed of without the approval of the DSIR.

- ▶ On completion of the R&D activity, a completion certificate must be given to the DSIR with a report of the activities carried out, results obtained and further application for commercial exploitation.

Incentives related to export profits earned by units set up in an SEZ

Units set up in an SEZ are governed by the terms of the letter of permission granted by the Development Commissioner. Apart from the approval procedure listed earlier, compliances for an SEZ unit include the following:

- ▶ Filing of an annual performance report with the Development Commissioner of the SEZ. The annual performance report includes details of imports, exports, capital goods, ECB borrowings, etc. The contents of the report have to be certified by a chartered accountant.
- ▶ Based on the annual performance report submitted by the unit, the Approval Committee undertakes an annual review of the unit's performance and compliance with the conditions of approval as provided in the letter of permission.

Incentives related to capital expenditure on setting up an ESDM and EMC

Specific DEITY approval is required to secure the benefit of M-SIPS and EMC schemes. DEITY may carry out project appraisal through an identified third party, including appraising the financial viability of the project. The applicant is required to bear the cost of such an appraisal. DEITY will also form technical evaluation committees and an appraisal committee for appraisal of the project.

An applicant whose project has been approved will be required to submit a quarterly progress report of the project to DEITY.

As required, the accounts shall be open for inspection and internal audit by DEITY and for audit by the Comptroller and the Auditor General of India. The chief promoter of the project is required to submit the utilization certificate on the basis of audit done by the chartered accountant after acceptance of the same by the board of directors.

The chief promoter shall maintain accounts of the government grant.

Incentives related to customs and excise

- ▶ Under customs legislation, there is a provision for conducting on-site audits, during which the authorities may check compliance with the conditions stipulated while granting and availing incentives by the assessee. The authorities may verify whether the conditions prescribed in the corresponding notification, such as whether the goods are transferred or otherwise, have been adhered to. In the case of import by agrochemical sector units, a certificate from the jurisdictional assistant or Deputy Commissioner of Central Excise (in cases of units registered under Central Excise) or from an independent chartered engineer (in cases of unregistered units) must be produced before the assistant or Deputy Commissioner of Customs certifying that the imported goods are installed in the R&D wing of the importer within six months from the date of importation. Certification from the competent authority is required.

Statutory reference

Accelerated depreciation

- ▶ Section 35(1) of the Income-Tax Act, 1961 ('the Act')

Super deductions

- ▶ Section 35 of the Act

Tax holiday for export profits for units in an SEZ

- ▶ Section 10AA of the Act

Funding for R&D activities in technology

- ▶ Project Funding Guidelines issued by the Technology Development Board

Fiscal Incentives under M-SIPS and EMC schemes

- ▶ M-SIPS: DEITY Notification No. 24 (10) /2010-IPHW, dated 27 July 2012
- ▶ EMC: DEITY Notification No. 8(50) / 2011-IPHW, dated 22 October 2012

Customs duty exemption (related to the agrochemical sector)

- ▶ Customs Notification No. 12/2012, dated 17 March 2012

Customs duty exemption (related to in-house research units)

- ▶ Customs Notification No. 50/1996, dated 23 July 1996 (as amended from time to time)

Concessional rate of duty (related to research institutes)

- ▶ Customs Notification No. 51/1996, dated 23 July 1996 (as amended from time to time)

Excise duty exemption (related to research institutes)

- ▶ Central Excise Notification No. 10/1997, dated 1 March 1997 (as amended from time to time)



Indonesia

Indonesia

This chapter is based on information current as of 15 March 2014.

EY contact:

Ben Koesmoeljana

ben.koesmoeljana@id.ey.com

+62 21 5289 5030

Overview

The tax allowance incentive was introduced in 2007 via Government Regulation Number 1, Year 2007. Since then, the Indonesian Government has continued to develop and refine the incentive through Government Regulation Number 52, Year 2011.

While there is no R&D-based tax incentive scheme in Indonesia, the general rule provided under the Indonesian tax law is that only R&D activities that are conducted in Indonesia may be claimed as a tax deduction in calculating taxable income. These costs are limited to the reasonable amount of costs relating to R&D activities performed in Indonesia for the purpose of discovery of a new system or technology for development of the company.

Businesses conducting R&D on product development or manufacturing efficiency may be entitled to carry forward and claim tax losses for an additional year under the Tax Allowance incentive scheme. To qualify for the additional one year (over and above the standard five year) of tax loss carryforward, the proportion of investment made in R&D must be at least 5% of the total investment within five years.

2014 tax rates

Corporate income tax rate 25%¹

Standard VAT rate 10% for domestic companies and 0% for certain exports²

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input checked="" type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

¹ Article 17 (2a) of Law No. 36 of 2008, Income Tax Law.

² Article 7 of the VAT Law.

Incentives available

Names of incentives	Tax allowance
Types of incentives	<ul style="list-style-type: none"> ▶ Accelerated depreciation and amortization ▶ Reduced tax rates ▶ Investment allowance

Tax allowance

Description of benefits

Businesses conducting R&D on product development or manufacturing efficiency may be entitled to carry forward and claim tax losses for an additional year. This is available under the tax allowance incentive scheme, which is available for Indonesian companies or cooperatives that are seeking to make investments that are either new investments or for the purpose of expanding the current business in specific industries and/or provinces in Indonesia. The tax allowance incentives include:

- ▶ Accelerated depreciation and amortization

Category of tangible fixed asset	Accelerated useful life	Straight-line depreciation method	Declining balance depreciation method
Non-buildings			
Category 1	2 years	50%	100%
Category 2	4 years	25%	50%
Category 3	8 years	12.50%	25%
Category 4	10 years	10%	20%
Buildings			
Permanent	10 years	10%	
Non-permanent	5 years	20%	

- ▶ A reduced tax rate of 10% for dividend paid to non-residents (or the applicable tax treaty rate)
- ▶ An investment allowance in the form of a reduction of net income

- ▶ An extended time period in relation to the carrying forward of tax losses

Normally, a tax loss may be carried forward for five years. Taxpayers granted with the tax allowance incentive may be entitled to carry forward and claim tax losses for an additional year if they conduct qualifying R&D activities on product development or manufacturing efficiency. In obtaining the tax allowance incentives, the preapproval process is required.

Guidelines around incentive applications

The tax allowance incentive is available for new or future investments, or investments for the purpose of expanding a current business. For companies that obtained investment approval prior to 22 December 2011 (being the effective date of the last tax regulation which amended the tax allowance incentive scheme), approval may be sought for the tax allowance incentive, but a minimum capital investment plan of IDR1 trillion is required and the applicant must not have reached commercial production as of 22 December 2011.

Entities eligible for the tax incentives are required to claim them in the annual corporate income tax return and they should be reflected in the corporate income tax calculation of that respective year. Entities that have obtained the tax allowance incentive approval are required to declare the approval and the incentive granted in a specific attachment with the corporate income tax return (Form 4A – Daftar Fasilitas Penanaman Modal, or List of Capital Investment Incentive), which is required to be reported along with the tax return.

Eligibility requirements

To qualify for the tax allowance incentive, the investment must be a new investment or an investment for the purpose of expanding a current business, with certain exceptions. Taxpayers with the tax allowance incentive conducting R&D activities on product development or manufacturing efficiency may be entitled for the incentive of claiming tax losses for an additional year, if the proportion of investment made in R&D is at least 5% of the total investment within five years. There are 52 business sectors that are eligible for the tax incentives. Additionally, 77 prescribed industries in certain areas and provinces (mostly outside Java) qualify for the tax allowance incentives.

IP and jurisdictional requirements

There are no specific jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Indonesia.

Role of governmental bodies in administering incentives

- ▶ The Investment Coordinating Board
 - ▶ Businesses applying for the tax allowance incentive are required to submit their application to the Chairman of the Investment Coordinating Board, who will evaluate the applicant's eligibility for the incentive and submit a recommendation to the Minister of Finance via the Director General of Taxation.
- ▶ The Directorate General of Taxation
 - ▶ Upon receipt of a recommendation from the Investment Coordinating Board, the Directorate General of Taxation reviews the fulfillment of criteria and requirements of the applicant. Subject to the result of the review, the Directorate General of Taxation issues the decision to accept or to reject the request for and on behalf of the Minister of Finance.

- ▶ The Ministry of Finance
 - ▶ The Minister of Finance issues the decision to accept or reject the request subsequent to recommendation from the head of the Investment Coordinating Board.

Administrative requirements

Taxpayers seeking to avail themselves of the tax incentives will require approval from the Minister of Finance with recommendations from the Chairman of the Investment Coordinating Board.

The general application process for the incentives is as follows:

- ▶ The business applying for the tax allowance incentives is required to submit an application to the Chairman of the Investment Coordinating Board, who will evaluate the applicant's eligibility and submit a recommendation to the Director General of Taxation/Minister of Finance for final approval.
- ▶ The Directorate General for and on behalf of the Minister of Finance accepts or rejects the request within 10 working days from the receipt of a completed and valid request. In principle, the approval must be obtained for the relevant incentives to apply.

For the additional one-year tax loss carryforward, the qualifying taxpayer must submit an application to the Directorate General of Taxation, which will conduct field verification to confirm that the taxpayer qualifies.

Taxpayers awarded the tax allowance incentive are required to submit an investment realization report to the Directorate General of Taxation on a semiannual basis. Annual tax returns of the eligible taxpayers must be attached with financial statements that have been audited by an independent auditor.

Statutory reference

Article 6, Point 1.f of the Income Tax Law for the general rule says that only costs relating to R&D activities performed in Indonesia can be claimed as tax deduction in calculating the taxable income of an entity.



Ireland

Ireland

This chapter is based on information current as of 15 March 2014.

EY contact:

Ian Collins

ian.collins@ie.ey.com

+353 1 221 2638

Overview

The Irish Government is supportive of the R&D tax credit regime and recognizes its importance as part of the overall package to attract foreign direct investment into Ireland and enabling Ireland to compete with other jurisdictions with similar incentives. During 2013, the Irish Department of Finance carried out a review of Ireland's R&D regime. This review acknowledges that the Irish R&D scheme has been a significant driver for increasing R&D spending in Ireland over the past decade, and it continues to be among the best in class internationally, remaining a significant aspect of Ireland's successful formula for attracting foreign direct investment. The review highlights areas for improvement, most notably that the base year should be phased out when resources allow.

The R&D tax credit regime provides for a 25% tax credit for incremental expenditures on qualifying R&D activities over such qualifying expenditures incurred by the company in 2003 (the base year). Finance Act 2012 provided that the first €100,000 of qualifying R&D expenditure would benefit from the tax credit without reference to the 2003 threshold. The amount of expenditure allowed on a volume basis was increased to €200,000 in Finance Act 2013 and is now being increased again to €300,000 for accounting periods commencing on or after 1 January 2014. The 25% tax credit is in addition to the 12.5% corporate tax deduction for these expenses; therefore, the effective tax relief on such expenditure is 37.5%. In certain situations these R&D tax credits can be used to tax-efficiently reward key R&D employees.

A range of other cash grants/financial supports are also available from Irish Governmental agencies in the form of employment grants, capital grants, training grants and R&D grants.

2014 tax rates

Standard corporate income tax rate
(national and local average)

12.5%¹

Standard VAT rate

23%²

¹ Section 21 Taxes Consolidation Act 1997.

² Section 46 Value-Added Tax Consolidated Act 2010.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other (R&D tax credit on R&D buildings)	<input checked="" type="checkbox"/>

Incentives available

Names of incentives	R&D tax credits incentive*	RDI cash grants/ financial support incentives	Key employee tax credit incentive	R&D tax credit on R&D buildings	Allowances for capital expenditure on scientific research
Types of incentives	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ Cash grants ▸ Financial support 	<ul style="list-style-type: none"> ▸ Reduced tax rates 	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ Tax exemptions ▸ Accelerated depreciation

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D tax credits incentive

Description of benefits

Tax deduction for R&D expenditures incurred and an additional R&D tax credit of 25% of incremental qualifying spend over “base year spend” can be relieved against the corporation tax charge for the period. Any excess R&D tax credits can be refunded in cash. Therefore, tax relief of up to 37.5% is available (i.e., 12.5% trading deduction and 25% tax credit), equating to €37.50 for every €100 spent on R&D.

Any excess R&D tax credits may be carried back for a period of one year, while excess R&D tax credits may be carried forward indefinitely. Where the corporation tax liability does not exceed the available R&D tax credit, a cash refund may be available over a 33-month period. The first installment is 33% of the excess. The second installment is 50% of the remaining excess, and the third installment is the remaining balance. Where the company does not wish to claim a repayment of the credit, the credit will be carried forward indefinitely. The repayment of the R&D tax credit is limited to the greater of either the corporation

tax paid by the company in the preceding 10 years, or the aggregate of the total payroll liabilities for the combined current and preceding accounting periods. The company must make a claim for repayment to the Revenue Commissioners within 12 months of the accounting year-end in which the expenditure was incurred. The refund is payable over a 33-month period. The R&D tax credit regime is a self-assessment regime, and there is no requirement to obtain preapproval from the Revenue Commissioners.

Guidelines around incentive applications

R&D tax credits are applicable for current investments, and the claim should be made on the company’s corporation tax return (Form CT1). The claim must be made within 12 months of the accounting year-end in which the expenditure was incurred.

RDI cash grants/financial support incentives

Description of benefits

Enterprise Ireland (EI) offer grants for R&D expenditures incurred by Irish-based manufacturing or internationally traded services companies. Grants for expenditure incurred on research, development and innovation are also available from the Irish Industrial Development Authority (IDA) and are offered for both first-time foreign direct investment and companies currently located in Ireland. The level of grant assistance available from both the IDA and EI can vary, depending on a number of factors, including the type of research activity. These grants are typically negotiated on a case-by-case basis, with a primary focus of job creation.

The grant funding is generally paid over the life of the project. The IDA or EI (or a sister company) will approve the grant funding before the company receives any cash payments.

Guidelines around incentive applications

The cash grants are applicable for current and future investments. These are claimed directly with the respective Government bodies by completing the required documentation and providing the relevant information to the Government body. The project for which funding is sought must meet the conditions of eligibility of the Industrial Development Acts and must also comply with EU State Aid regulations (2007-2013). The IDA and EI will set out key milestones that will need to be achieved in order for the company to receive the funding for each of the agreed years. These milestones are usually agreed on a case-by-case basis with the agency in question.

Key employee tax credit incentive

Description of benefits

The R&D tax credit regime allows a company to reward its key R&D employees who perform at least 50% of their duties in the "conception or creation of new knowledge, products, methods and systems" in the relevant accounting period. Part of the R&D tax credit that the company could have utilized to reduce the company's corporation tax liability can be allocated to a key R&D employee. Subject to certain conditions, the key R&D employee incentive will effectively allow an employee engaged in R&D to claim a credit equal to the amount surrendered by the employer against his or her income tax. In the event that the employee cannot use the credit in full, it may be carried forward indefinitely until it is used or the employee leaves the company.

In order to receive the key employee tax credit incentive, the employee must perform 50% of his or her duties in the "conception or creation of new knowledge, products, methods and systems" in the relevant accounting period. The employee must not be a director or an individual who holds a 5% or more interest in the company or associated company. The employee must make a claim with the Irish Revenue Commissioners for a refund of income tax paid. The effective tax rate of the employee cannot be reduced below 23%.

Guidelines around incentive applications

The key employee tax credit incentive is applicable for current investments. An individual making a claim under this section is required to file an income tax return (Form 11, Pay and File Income Tax Return) for the year of assessment to which the claim relates.

R&D tax credit on R&D buildings

Description of benefits

A tax credit is available for expenditures on the construction or refurbishment of a building or structure used for R&D activities. A 25% tax credit is available on the expenditure. There is no reference to the incremental spend (i.e., there is no reference to the 2003 level of expenditure). The credit is in addition to any industrial buildings allowances that may be available. The credit is first used to reduce current-year and prior-year corporation tax. The excess R&D tax credits may be carried forward indefinitely. Where the corporation tax liability does not exceed the available R&D tax credit, a cash refund may be available over a 33-month period. The first installment is 33% of the excess. The second installment is 50% of the remaining excess, and the third installment is the balance remaining. A claim for the repayment must be made by the company to the Revenue Commissioners within 12 months of the accounting year-end in which the expenditure was incurred.

In order to receive the R&D tax credit on R&D buildings, at least 35% of the building must be used for R&D purposes. The credit is calculated by reference to the percentage of the building or structure used for qualifying R&D activities. The construction or refurbishment of the R&D building must qualify for industrial buildings allowances from a corporation tax perspective. The repayment of R&D tax credit is limited to the greater of either the corporation tax paid by the company in the preceding 10 years, or the aggregate of the total payroll liabilities for the combined current and preceding accounting periods.

Guidelines around incentive applications

The R&D tax credit on R&D buildings is applicable to current investments. The claim should be made on the company's corporation tax return (Form CT1). A claim must be made within 12 months of the accounting year-end in which the expenditure was incurred.

Allowances for capital expenditure on scientific research

Description of benefits

Tax depreciation allowances are available with respect to capital expenditure incurred during the course of scientific research. The allowance is equal to the amount of the capital expenditure incurred and is granted in computing the profits of the trade. Unused allowances may be carried forward indefinitely. There is a clawback of the allowances where the assets cease to be used for scientific research. A claim for the tax depreciation allowances is made under the self-assessment regime.

Guidelines around incentive applications

The accelerated depreciation applies to the current investments. The claim should be made on the company's corporation tax return (Form CT1). A claim must be made within two years of the end of the chargeable period in which the expenditure was incurred.

Eligibility requirements

The R&D activities being carried out must fall within one of the following categories:

- ▶ Basic research
- ▶ Applied research
- ▶ Experimental development

Where a company subcontracts its R&D expenditures to a third party or university (or similar institution) in order to carry on qualifying R&D activities on behalf of the company, the costs that may qualify are restricted. In the case of costs subcontracted to third parties, the costs are restricted to the greater of €100,000 or 15% for accounting periods commencing on or after 1 January 2014 (previously 10%) of the qualifying in-house expenditures. Where the R&D activities are subcontracted to a university (or similar institution), the costs are restricted to the greater of €100,000 or 5% of the qualifying in-house expenditures. Where a company subcontracts all of its R&D activities to third parties, to the extent that its only function is managing and controlling the R&D activities, these activities are non-qualifying.

Certain activities are specifically non-qualifying and include:

- ▶ Market research, market testing, market development, sales promotions or consumer surveys
- ▶ Routine testing and analysis for purposes of quality or quantity control
- ▶ Alterations of a cosmetic or stylistic nature to existing products, services or processes, regardless of whether these alterations represent some improvement

No industry sectors are specifically excluded. Once a company within the charge to Irish tax is carrying on qualifying R&D activities, it should be eligible to make a claim, provided the necessary conditions are met and the documentation to support the claim is available.

Eligibility requirements for the specific incentive types

R&D tax credits incentive

The R&D tax credit will be available with respect to expenditures incurred by the company while carrying on its qualifying R&D activities. The type of costs that may qualify include salary costs, expenditures incurred directly on R&D materials,

subcontracted expenditures (subject to the restrictions set out above) and general overhead expenditure to the extent that it can be demonstrated that they directly support the company's R&D activities. In addition, plant and equipment used in the R&D activities may also be included in the claim.

Certain costs are specifically disallowable and include interest, depreciation, bank charges and marketing-type costs. In order to receive the R&D tax credit, the following conditions are required to be met:

- ▶ The company must be within the charge to Irish tax.
- ▶ The company must undertake qualifying R&D activities within the European Economic Area.
- ▶ The expenditure must be incurred by the Irish company and must not qualify for a tax deduction under the law of another territory.
- ▶ The Irish company is not required to own the IP to qualify for the R&D tax credit incentive.
- ▶ Any expenditure met directly or indirectly by the EU or State aid will not be treated as qualifying expenditure.

RDI cash grants/financial support incentives

The main conditions of this incentive are as follows:

- ▶ The availability of grant aid/financial supports will generally depend on the location, quality and level of investment by the company into Ireland. For aid being sought by a company in relation to research, development and innovation projects in Ireland, the level of the grant depends on the size of the investment, the nature of the research, and the level of innovation and risk associated with the research being undertaken.
- ▶ The level of grant aid would be negotiated on a case-by-case basis.

Key employee tax credit incentive

The main conditions of this incentive are as follows:

- ▶ The employee must be a "key employee," which is defined as an employee who performs 50% of his or her duties in the "conception or creation of new knowledge, products, methods and systems" in the relevant accounting period.
- ▶ The employee must not be a director or an individual holding more than 5% of the ordinary share capital of the company.
- ▶ The effective tax rate of the employee cannot be reduced to below 23% as a result of the surrender of the credit to the employee.

- ▶ The employee must make a claim to the Revenue Commissioners for a refund of any tax paid.
- ▶ The employee may carry forward any unutilized credits indefinitely. The employee loses the unutilized credits upon leaving the company.
- ▶ The company may decide which key employees to reward.
- ▶ The company must pay taxes.
- ▶ If the company has outstanding tax liabilities in the accounting period with respect to whether the credit arises, the company is not entitled to surrender any amount to the key employee.

R&D tax credit on R&D buildings

The main conditions of this incentive are as follows:

- ▶ The building must qualify for industrial buildings allowances.
- ▶ At least 35% of the building or structure must be used for R&D purposes over a four-year period. The credit is calculated by reference only to the portion of the building or structure used for R&D activities.
- ▶ The tax credit is clawed back if, within 10 years of the accounting period for which a credit is claimed, the building or structure is sold or ceases to be used for purposes other than carrying on R&D activities.
- ▶ Any expenditure met directly or indirectly by EU or State aid will not be qualifying expenditure.

Allowances for capital expenditure on scientific research

The main conditions of this incentive are as follows:

- ▶ Scientific research is defined as any activities in the fields of natural or applied science for the extension of knowledge. It does not apply to expenditures incurred on exploring for specified minerals, petroleum exploration activities or petroleum extraction activities.
- ▶ Where an allowance is granted, no wear-and-tear allowances are available with respect to the plant or machinery.
- ▶ There is a clawback of the tax depreciation allowances where the assets representing capital expenditure on scientific research cease to be used for research purposes. The amount of the clawback is the lesser of the allowance granted or the value of the asset at the time of cessation.
- ▶ Capital expenditures on scientific research that are met directly or indirectly from money provided by the State or anyone other than the person claiming the allowance must be excluded.

IP and jurisdictional requirements

Effective date

The requirements apply to capital expenditures incurred on qualifying IP (e.g., on internally generated IP, IP acquired from a related party and/or IP acquired from a third party) after 7 May 2009.

Qualifying IP

The definition of qualifying IP is very broad and includes:

- ▶ Brands
- ▶ Brand names
- ▶ Domain names
- ▶ Service marks
- ▶ Publishing titles
- ▶ Secret processes or formulae
- ▶ Trademarks
- ▶ Trade names
- ▶ Trade dress
- ▶ Patents
- ▶ Copyrights
- ▶ Registered designs
- ▶ Design rights
- ▶ Inventions
- ▶ Know-how
- ▶ Some computer software
- ▶ Goodwill directly attributable to the above

Types of income

Applicable income is income derived from the IP in the course of an Irish trade (e.g., through the sale of goods/services and management, exploitation, licensing or development of the IP).

Calculation of income

Capital expenditures incurred on qualifying IP can be fully amortized (in line with the accounting treatment or, upon election, over 15 years).³ Companies may also opt for a fixed write-down period of 15 years at an annual rate of 7% of qualifying expenditures and 2% in the final year.

³ The level of amortization available in any one year is capped at 80% of the related trading income. If this cap is applicable, then the unrelieved amount may be carried forward.

Determination of embedded IP income

The relief may be used to offset income of the trade of exploiting the intangible assets and this "trade" is ring-fenced for the purposes of this relief. Therefore, excess allowances may be carried forward indefinitely, but may only be offset against future trading income of the same trade which is derived from the use of the specified intangible assets.

IP regime rate

The tax amortization and any associated interest relief are capped at 80% of taxable profits (calculated before tax amortization and interest) for the exploitation of the intangible assets, thus resulting in a minimum net effective cash tax rate of 2.5% (i.e., 20% x 12.5%). From a consolidated group perspective, a book benefit may actually arise following the onshoring of IP previously held offshore in a zero-tax-rate jurisdiction.

Must the IP be registered/owned locally?

Legal ownership is not required, but it must be beneficially owned.

To the extent that expenditures on the development of an intangible asset within a company is regarded as capital expenditure for the purposes of the company's trade, such expenditure will qualify for allowances under the scheme, provided that the asset is recognized as an intangible asset under generally accepted accounting practices and is included on the list of specified intangible assets. Companies claiming relief on the assets under the IP regime may not also claim the R&D tax credit on the same expenditure.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Ireland.

Role of governmental bodies in administering incentives

The R&D tax credit regime operates on a self-assessment basis and is administered by the Irish Revenue Commissioners. The Revenue Commissioners may seek the opinion of an external expert to assist them in determining whether the company's activities are qualifying R&D activities. The Revenue Commissioners may also carry out an audit of the R&D tax credit claim, which includes a review of the technical information, supporting documentation and the claim's financial aspect.

The IDA and EI are the two main Government bodies that administer the grant-funding schemes. Depending on the grant funding being sought, there will be various types of documentation that must be provided to the granting body before a company is rewarded with the funding.

Administrative requirements

The R&D tax credit is a self-assessment regime. The claim is made on a company's corporation tax return. Companies have 12 months from the end of the accounting period in which the expenditure was incurred to file a claim with the Irish Revenue Commissioners. Companies must maintain contemporaneous records to substantiate their R&D tax credit claim. The company's records must be sufficient to show that the claimed activities took place and that they meet all aspects of the definition of R&D activities. The records maintained by companies are not required to be submitted to the Irish Revenue Commissioners unless formally requested.

Statutory reference

- ▶ Statutory reference: Section 765, Section 766, Section 766A, Section 766B, Section 291A Taxes Consolidated Acts 1997
- ▶ Year of statutory regime for R&D tax credit: 1 January 2004
- ▶ Year of statutory regime for IP regime: 7 May 2009



Italy

Italy

This chapter is based on information current as of 15 March 2014.

Overview

The Italian Government has always appreciated the necessity of providing adequate stimulus to R&D activities and investments. Currently, Italian tax law provides various forms of R&D tax incentives, and they include varied operational rules. Certain tax benefits are not yet completely operative due to the absence of specific regulatory guidance.

Currently the Government provides R&D tax credits for eligible R&D expenses and tax credits for qualified employees and for scholarships offered to university students. In addition, Italian tax law provides tax deductions from the Italian Regional Tax (IRAP) taxable basis, for employees hired and involved in R&D activities.

The laws currently in force set forth different regimes. Certain incentives can be granted on a regular basis and with no time limitations, while other forms of tax benefits must be claimed and obtained within a specific time frame.

2014 tax rates

Top corporate income tax rate (federal and state average)	31.4% ¹
Standard VAT rate	22% ²

¹ "2014 Global tax policy outlook," EY website, www.ey.com/GL/en/Services/Tax/International-Tax/2014-tax-policy-outlook-Italy.

² Ibid.

EY contacts:

Marco Magenta
marco.magenta@it.ey.com
+39 02 8514529

Domenico Borzumato
domenico.borzumato@it.ey.com
+39 02 8514503

Muge Tan Belviso
muge.tan@it.ey.com
+39 02 8514464

Francesco Leone
francesco.leone@it.ey.com
+39 02 8514573

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D tax credit	Tax credit for qualified employees*	Tax credit for scholarships offered to university students	SME R&D tax credit	Regional tax (IRAP) deduction for R&D employees
Types of incentives	▸ Tax credit	▸ Tax credit related to the hiring of highly skilled workers involved in R&D activities	▸ Tax credit for scholarships offered by taxpayers to university students	▸ Tax credits for R&D carried out by small and medium sized enterprises	▸ Regional Tax (IRAP) deduction for costs related to personnel employed in R&D activities

* Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

R&D tax credit

(Credito d'imposta per attività di ricerca e sviluppo)

Description of benefits³

Taxpayers (including a network of companies and associations of companies) investing in R&D activities are entitled to a tax credit to offset tax liabilities. The tax credit equals up to 50% of the annual increase of annual R&D expenses. The eligibility of the benefit depends on a minimum annual investment of €50,000. Such amount is required to claim the tax benefit in question, and the credit is not available for amounts lower than €50,000.

The maximum annual credit for each beneficiary is established at €2.5 million. To benefit from the incentive, the taxpayer must have a yearly turnover not exceeding €500 million. The overall budget allocated for this benefit is €600 million, which is the maximum amount of overall credit available during the three-year period in which the credit is available (FYs 2014-16) for all Italian taxpayers. Unutilized credit may be carried forward until the tax credit is fully utilized. No carryback is permitted.

³ The incentive is subject to final EC approval. Guidance on the implementation of the incentive shall be issued by Ministerial Decree by to provide full operability to the tax credit. At the moment, no official organization has been appointed.

Guidelines around incentive applications

The incentive is applicable to current and future investments. In order to receive the credit, taxpayers are required to file an application to the Finance Ministry or to the Ministry for Economic Development. At the present date, the competent authority has not yet been appointed and implementing and operative instructions still have to be issued.⁴

Further guidance on the implementation of the incentive will be also provided by a Ministerial Decree, Circular Letter or other provisions to be determined. Such further regulations should clarify, for example, the operative measures to be adopted in order to file the applications, as well as the other steps to be taken with reference to the other issues related to the tax credit (e.g., indication of the tax credit in the annual corporate tax return or UNICO) and the competent authorities appointed for monitoring and granting the tax benefit.

⁴ Further guidance on the preapproval requirements will be set forth by the Ministerial Decree by the Ministry of Finance and or the Ministry for Economic Development. At the present date no authority has been appointed yet.

Tax credit for qualified employees

(Contributo tramite credito d'imposta per le nuove assunzioni di profili altamente qualificati)

Description of benefits⁵

To promote R&D investments in the Italian production system, a tax credit for hiring skilled employees was introduced effective June 26, 2012. The tax credit is set at the rate of 35% of the expenses incurred in the hiring of employees engaged in R&D activities under an indefinite-term contract, and covers only the expenses for the first 12 months related to each new employee. The maximum amount of tax credit is €200,000 per company. To benefit from the incentive, the newly hired personnel must possess a PhD or technical or scientific degree. Unutilized credit may be carried forward until it is utilized fully. No carryback is allowed. The incentive will be forfeited if:

- ▶ The aggregate number of employees is equal to or smaller than the number specified in the financial statements for the fiscal year prior to that in which the tax incentive applies.
- ▶ The jobs created are not held for at least two or three years (depending on whether the taxpayer could be considered an SME), and non-formal tax and social security violations resulting in penalties for an amount not lower than €5,000 are assessed in the hands of the taxpayer benefiting from the incentive.
- ▶ The benefit has been granted since 2012.

Guidelines around incentive applications

The incentive is applicable to current and future investments. In order to receive the credit, taxpayers are required to file an application with the Italian authorities. Further guidance on the implementation of the incentive will be provided by a Ministerial Decree, Circular Letter or other provisions to be determined. Such further regulations should clarify the operative measures to be adopted in order to file an application, as well as the other steps to be taken with reference to other issues related to the tax credit (e.g., indication of the tax credit in the UNICO tax return) and the competent authorities appointed for monitoring and granting the tax benefit.

⁵ Preliminary guidance was issued by a Ministerial Decree. However, further guidance is still required for the incentive to be fully available.

The Ministry for Economic Development shall prepare an electronic platform to claim the credit in question. The Ministry for Economic Development shall approve the amounts claimed to benefit from the tax credit. After such approval, the eligible amounts may be indicated in the UNICO tax return and may be offset with the beneficiary's tax liabilities through the F24 Form. According to current tax regulations, the deadline for the submission of the UNICO is generally established at the end of the ninth month following the FY that the return refers to (i.e., period ending at 31 December, deadline 9:30).

Recent guidance has been provided by the Governmental Decree (D.P.C.M) issued on 20 February 2014 (published on the Official Gazette on 21 March 2014), which set forth the available public funds for the tax credit. According to the Decree, the amounts available are € 38.3 million for FY 2014, and € 36.6 million for each of two following years.

Tax credit for scholarships offered to university students

(Credito d'imposta per borse di studio erogate a studenti universitari)

Description of benefits

Companies granting scholarships to students of public universities and non-public accredited universities are entitled to benefit from the tax credit. The incentive has limited governmental funds; for FY 2013 the budget amount was €1 million, and for FY 2014 the amount was initially set at €10 million. The budget amount for FY14 has been reduced to € 8.5 million. The benefit will be granted only for tax years 2013 and 2014.

Guidelines around incentive applications

The incentive is applicable to current investments. At present, no official operative/implementing instructions have been provided. Such regulations will probably set forth the measures and the actions to be taken in order to employ the credit in question (e.g., the requirements necessary to file the application and to benefit from the credit, the entity in charge to collect the applications from the taxpayers), as well as the other aspects related to the indication of the credit in the UNICO tax return or the possibility to offset the credit through the F24 Form, etc.

SME R&D tax credit

(Credito d'imposta per ricerca e sviluppo applicabile alle PMI)

Description of benefits

Effective January 2013, SMEs and networks of SMEs investing in R&D projects or assigning any R&D projects to universities and other public research bodies may benefit from the SME R&D tax credit. The benefit has been granted since 2013.

Guidelines around incentive applications

The incentive is applicable to current and future investments. At present, no official operative/implementing instructions have been issued. Such operative regulations will probably set forth the measures and the actions to be taken in order to employ the credit in question (e.g., the requirements necessary to file the application and to benefit from the credit, the entity in charge to collect the applications from the taxpayers), as well as other aspects related to the indication of the credit in the UNICO return or the possibility to offset the credit through the F24 Form.

Regional tax (IRAP) deduction for R&D employees

(Deduzione IRAP per personale addetto a ricerca e sviluppo)

Description of benefits

Costs related to the personnel employed in R&D activities may be deducted from regional tax (IRAP) taxable basis. IRAP is calculated on the taxpayer's net production value (NPV), and the IRAP tax rate is generally 3.9% to 5%. The tax deduction is an alternative to other IRAP tax deductions related to labor costs, and if the taxpayer elects other deductions, the incentive may not be used. The deduction amount is limited to the employees' direct costs related to R&D activities. The benefit has been granted since 2005.

Guidelines around incentive applications

The incentive is applicable to current and future investments. The incentive may be obtained via a direct tax deduction from IRAP taxable basis, and taxpayers may claim the incentive via the taxpayer's annual IRAP tax return (Modello IRAP).

According to current tax regulations, the deadline for submitting the Modello IRAP is generally the end of the ninth month following the FY that the return refers to (i.e., for periods ending at 31 December, the deadline is 30 September).

Eligibility requirements

R&D tax credit

Eligible expenses include:

- ▶ Labor costs
- ▶ Depreciation quotas related to the fixed assets employed to carry on the activities/projects
- ▶ R&D activities carried on jointly with universities and other research bodies, as well as the R&D activity carried on on behalf of other companies (so-called contractual research)
- ▶ Costs related to the acquisition or to the exploitation of industry trade patents

Qualifying activities include:

- ▶ Experimental works aimed at acquiring new technologies
- ▶ Experimental research or surveys aimed at developing products; upgrading existing products, processes or services; or creating more integrated systems necessary for industrial research
- ▶ Acquisition, combination, structuration and utilization of already-existing technologies in order to produce plans, projects or design of new products, processes or services or to create new prototypes, with no commercial or trade purposes
- ▶ Production or test (and service) of products should not be used for trade or commercial purpose

Tax credit for qualified employees

- ▶ Eligible expenses include labor costs related to the hiring of highly qualified personnel under indefinite-term contracts. For qualifying activities, the same eligibility requirement applies as for the R&D tax credit.

Tax credit for scholarships offered to university students

- ▶ Eligible expenses include scholarships granted to university students. Eligible institutions are public universities, public academic institutions, and non-public accredited private universities.⁶

SME R&D tax credit

- ▶ Eligible expenses include in-house R&D expenses carried on by the SMEs or outsourced R&D expenses by SMEs to universities and public research bodies.

Regional tax (IRAP) deduction for R&D employees

- ▶ Eligible expenses include costs related to the employee directly involved in R&D activities. The employees can be hired either under a permanent or temporary contract. Eligible activities are either the basic research or R&D activities.

⁶ The reduction in funding was introduced by D.P.C.M issued on 20 February 2014 (published on the Official Gazette on 21 March 2014).

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Italy.

Role of governmental bodies in administering incentives

The National Tax Agency administers the R&D tax credit and income deduction (i.e., the eligibility for tax credit or income deduction is scrutinized by tax authorities upon future tax audit). As for R&D income deduction, a company is required to obtain an approval from the Minister of Economics, Trade and Industry for its R&D business plan to be qualified for the deduction.

R&D tax credit

The competent authorities are the Ministry of Economic Development and the Revenue Agency on behalf of the Ministry of Finance. The application set forth to benefit from the R&D tax credit is subject to a prior administrative approval. The administrative authority is also entitled to verify a posteriori the effectiveness of the expenses borne and to carry on all the inspections and assessments deemed necessary. At the moment, no official operative/implementing instructions have been provided.

Tax credit for qualified employees

The competent authorities are the Ministry of Economic Development and the Revenue Agency on behalf of the Ministry of Finance. The tax credit can be granted through an application. The administrative authority is also entitled to verify a posteriori the effectiveness of the expenses borne and to carry on all the inspections deemed necessary. At the moment, no official operative/implementing instructions have been provided.

Tax credit for scholarships offered to University students

The competent authorities could be the Ministry of Economic Development and the Revenue Agency on behalf of the Ministry of Finance. However, at the moment, no official operative/implementing instructions have been provided. Such instructions could appoint different or supplementary bodies or administrations that might monitor or administer the incentive in question.

SME R&D tax credit

The competent authorities could be the Ministry of Economic Development and the Revenue Agency on behalf of the Ministry of Finance. However, at the moment, no official operative/implementing instructions have been provided. Such instructions could appoint different or supplementary bodies or administrations that might monitor or administer the incentive in question.

Regional tax deduction for R&D employees

The competent authority is the Revenue Agency on behalf of the Ministry of Finance. The tax authorities are entitled to carry on all the assessments deemed necessary in order to verify whether the annual tax return has been correctly filed and submitted. The areas that could be analyzed might also evaluate if the benefit in question has been correctly determined and calculated.

Administrative requirements

R&D tax credit

- ▶ Preapproval: an application shall be submitted. At present, no official operative/implementing instructions have been provided.
- ▶ Compliance: specific documentation aimed at supporting the eligible expenses and activities must be prepared. At present, no official operative/implementing instructions have been provided.
- ▶ Certification report: the documentation for the item above must be certified by the taxpayer's board of auditors or by the taxpayer's auditing company.

Tax credit for qualified employees

- ▶ Preapproval: an application shall be submitted. At present, no official operative/implementing instructions have been provided.
- ▶ Compliance: specific documentation aimed at supporting the eligible expenses and activities must be prepared. At the present, no official operative/implementing instructions have been provided.
- ▶ Certification report: the documentation for the item above must be certified by the taxpayer's board of auditors or by the taxpayer's auditing company.

Tax credit for scholarships offered to university students

At present, no official operative/implementing instructions have been provided. Such instructions could establish specific requirements with regard to the administrative proceedings necessary to benefit from the tax credit.

SME R&D tax credit

At present, no official operative/implementing instructions have been provided. The latter could establish specific requirements with regard to the administrative proceedings necessary to benefit from the tax credit.

Regional tax deduction for R&D employees

- ▶ Compliance: specific documentation aimed at supporting the eligible expenses and activities must be prepared.
- ▶ Certification report: the documentation for the item above shall be certified by the taxpayer's board of auditors or by the taxpayer's auditing company.

Income deduction

Application for preapproval with The Ministry of Economics, Trade and Industry is required and the income deduction is granted for five years upon obtaining the approval. To claim the deduction, a certain form (schedule 10(3)) has to be attached to the corporate tax returns.

Statutory reference

R&D tax credit

- ▶ Law Decree (Decreto Legge) no. 145/2013, art. 3

Tax credit for qualified employees

- ▶ Law Decree no. 83/2012, art. 24

Tax credit for scholarships offered to university students

- ▶ Law no. 228/2012, art. 1, par. 285-287

SME R&D tax credit

- ▶ Law no. 228/2012, art. 1 par. 95-97

Regional tax deduction for R&D employees

- ▶ Legislative Decree (Decreto Legislativo) no. 446/1997, art. 11, par. 1, no. 5)



Japan

Japan

This chapter is based on information current as of 15 March 2014.

EY contact:

Koichi Sekiya
koichi.sekiya@jp.ey.com
+81 3 3506 2447

Overview

R&D tax incentives are a cornerstone of Japanese industrial policy, and are designed to increase the competitiveness of Japanese industry. With the second highest nominal corporate income tax rate in the world (and also high effective corporate tax rates) R&D incentives are an important policy measure for business. The Japanese R&D tax regime may be considered mature as it was introduced in 1967. Initially, tax credits had been applied to incremental R&D expenditures. A tax credit of up to 10% was introduced in 2003 and applied generally on qualified R&D expenditure. The credit has been consistently granted over the past ten years.

R&D incentives are mainly granted in the form of tax credits against National Corporate Tax and are subject to certain limitations. In addition, incremental and increased tax credits are available. To promote the globalization and integration of Japanese companies in international markets and academic programs, offshore activities are also eligible for R&D incentives.

2014 tax rates

Top corporate income tax rate (national and local average)	35.64% ¹
Standard VAT rate	8% ²

¹ The Government has repealed the 10% special reconstruction surtax a year early, and the effective corporate tax rate (Tokyo area, including local taxes) will be reduced from 38.01% to 35.64% for taxable years beginning on or after 1 April 2014.

² On 1 October 2013, the Government formally decided to increase the rate of consumption tax from 5% to 8%, effective 1 April 2014.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D Tax credit*	R&D income deduction under Asian Business Location Law
Types of incentives	▶ Tax credit	▶ Tax deduction

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

R&D Tax credit

(Shikenkenyu no sogaku ni kakaru zeigaku kojo seido)

Description of benefits

There are two layers of R&D credits available in Japan; (i) Base credit and (ii) Additional credit. The base credit is available as long as a company incurs qualified R&D expenses. In addition to the base credit, an additional credit will be available only for fiscal years beginning on or before March 31, 2014³ in cases when (i) the current year's qualified R&D expenses exceed average annual R&D expenses over the past three years and the largest annual R&D expenses in the past two years and/or (ii) the current year's qualified R&D expenses exceed 10% of average annual sales amount over the recent four fiscal years including the current year.

Base credit

- ▶ The base credit is a gross type credit equal to gross R&D costs multiplied by 8% to 10% (for large corporations) or 12% (for SMEs).
- ▶ Under the base credit, the R&D credit is available up to 20% of the corporate tax liability amount. For any two consecutive fiscal years starting on or after April 1, 2013, the R&D credit limitation on base credits is increased from 20% to 30% of total the National Corporate Tax liability.
- ▶ If the amount of gross R&D costs multiplied by the credit rate exceeds 20% (or 30%) of the corporate tax amount, such excess portion may be carried forward for one year. Carry back of the excess credit is not permitted.

Additional credit

- ▶ Taxpayers may choose either "Incremental type credit" or "Excess type credits"
 - ▶ Incremental type credit equals to incremental R&D costs multiplied by 5%.⁴

- ▶ Excess type credit equals to excess R&D costs over 10% of average sales, multiplied by a certain percentage.
- ▶ Under the additional credit, the R&D credit is available up to 10% of total the National Corporate Tax liability.
- ▶ Carry forward/back of the excess credit is not permitted for additional credit.

Guidelines around incentive applications

To claim the R&D tax credit, certain forms (schedule 6(6), 6(7), 6(8) and/or 6(9)) must be attached to the corporate tax return. The filing due date of the corporate tax return is two months (one month extension is generally allowed) from the fiscal year end.

R&D income deduction under Asian Business Location Law

(Shikenkenyu no sogaku ni kakaru Shotoku Kojo)

Description of benefits

An income deduction of up to 20% is available to companies meeting both of the following conditions:

- ▶ Newly established blue-return filing⁵ Japanese subsidiary of foreign multinationals that exclusively conducts R&D.
- ▶ Newly established blue-return filing Japanese subsidiary of foreign multinationals that employs at least 10 employees at the beginning and 25 when the incentive ends.

The 20% income deduction is granted for 5 years for certified companies, which results in an approximate 7% point effective tax rate reduction.

⁵ Per Japanese income tax law, a taxpayer can elect a "blue-return filing" status by submitting the election to the tax authority. By electing the "blue-return filing" status, a tax payer can maintain its accounting records to a standard acceptable by the tax authority.

³ An extension of applicable period by three years to March 31, 2017 has been proposed.

⁴ An increase of the credit rate (up to 30%) has been proposed.

The income deduction is applicable to each fiscal year ending within five years of date of approval of its R&D business plan granted between 1 November 2012 and 31 March 2014.

A company enjoying an income deduction under the Asian Business Location Law is not entitled to combined income deduction and R&D tax credits in the same fiscal year.

Guidelines around incentive applications

To be qualified for the 20% income deduction, the company is required to submit an R&D business plan and to obtain preapproval from the Minister of Economy, Trade and Industry. The income deduction is claimed through filing corporate tax returns, to which a specific form (schedule 10(3)) is attached. The filing due date of the corporate tax return is two months (one month extension is generally allowed) from fiscal year end.

Eligibility requirements

Eligible R&D expenditure includes the cost of material, salaries and wages and other related expenses of employees who have expert knowledge and skills and are engaged exclusively in experimental and research work, as well as a depreciation allowance for machinery and equipment used for such work. Personnel who have expert knowledge and skills refers to those having a technical background and who are directly involved in R&D activities (e.g., managers and assistants in charge of R&D activities). Administrative staff, janitors, security guards, etc. who may be involved in some way with R&D activities, do not qualify.

Qualifying Research Expenses (QRE) are defined as expenses incurred in experimental and research work in order to manufacture products or to improve, design or invent techniques. Research activities may occur within or outside of Japan. Contract fees received do not qualify and are to be netted against QREs, while for contract fees paid, R&D credits may be taken.

In order to be eligible for a deduction from the corporate income tax base under the Asian Business Location Law:

- ▶ R&D should be related to advanced knowledge and technology and will be subject to a business plan review by the Ministry for Economics, Trade and Industry.
- ▶ No affiliated company should already be engaged in the planned R&D activities in Japan.
- ▶ The company must be newly established in Japan and employ at least 10 employees at the beginning and 25 when the incentive ends.
- ▶ The company must be solely engaged in R&D activities.

IP and jurisdictional requirements

There are no jurisdictional requirements related to the location of IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Japan.

Role of governmental bodies in administering incentives

The National Tax Agency administers the R&D tax credit and income deduction (i.e., the eligibility for tax credit or income deduction is scrutinized by tax authorities upon future tax audit). As for R&D income deduction, a company is required to obtain an approval from the Minister of Economics, Trade and Industry for its R&D business plan to be qualified for the deduction.

Administrative requirements

Tax credit

To claim a tax credit, certain forms (schedule 6(6), 6(7), 6(8) and/or 6(9) must be attached to the corporate tax returns, which are due on two months after fiscal year end (one month extension is generally allowed).

Income deduction

Application for preapproval with The Ministry of Economics, Trade and Industry is required and the income deduction is granted for five years upon obtaining the approval. To claim the deduction, a certain form (schedule 10(3)) has to be attached to the corporate tax returns.

Statutory reference

Tax credit

Article 42-4 and 42-4-2 of Special Taxation Measures Law.

Income deduction

Special Measures Law for the promotion of R&D by multinational companies, Article 61 of Special Taxation Measures Law.



Lithuania

Lithuania

This chapter is based on information current as of 10 July 2014.

EY contacts:

Kestutis Lisauskas
kestutis.lisauskas@lt.ey.com
+ 370 5 274 2252

Overview

The Lithuanian government takes into account investors' needs, also offers financial support, therefore, the R&D incentive contributes to the creation of the business-friendly environment. There are no official plans to eliminate the R&D incentive in the near future.

The Lithuanian R&D incentives were introduced starting 1 January 2008. In this respect, the tax authorities have already gathered knowledge with respect to the practical application of the R&D incentive. Moreover, tax payers are encouraged to approach the Agency for Science, Innovation and Technology (MITA) for explanations and guidance on what constitutes R&D, where such inter-institutional cooperation contributes to the maturity of the incentive.

When calculating corporate income tax, a super deduction of 300% of qualifying R&D costs – excluding depreciation or amortization costs of fixed assets – may be deducted from income for the tax period during which they were incurred, if the performed scientific research and/or experimental development is related to the usual or intended activities of the entity that generated or will generate income or economic benefit.

Moreover, the Law on Corporate Income Tax allows accelerated depreciation of assets used in R&D activities.

2014 tax rates

Top corporate income tax rate (federal and state average)	15% ¹
Standard goods and services (GST) tax rate	21% ²

¹ This is the standard rate of profit tax. Reduced rates (0% or 5%) apply to small, agricultural, social or nonprofit companies and to companies registered and operating in free-economic zones that satisfy certain conditions.

² This is the standard rate of VAT. Reduced rates (0%, 5% or 9%) apply for certain goods and services.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	The scientific research and experimental development incentive*	The scientific research and experimental development incentive
Types of incentives	▶ Super deduction	▶ Accelerated depreciation on qualifying R&D assets

* Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

The scientific research and experimental development incentive: Super deduction

(Mokslinių tyrimų ir eksperimentinės plėtros lengvata)

Description of benefits

When calculating corporate income tax, R&D costs – except for depreciation or amortization costs of fixed assets – may be deducted three times from income for the tax period during which the costs were incurred. The amount of tax losses, resulting from the super deduction, may be carried forward for an unlimited period of time provided that the entity carries out the activity due to which the losses were incurred; however, loss carry back is not permitted under current tax legislation. No preapproval is required in order to receive the incentive.

Guidelines around incentive applications

The incentive applies only with respect to R&D costs incurred during the current period. The super deduction is claimed in the annual corporate income tax return for the tax period during which the R&D costs were incurred. The statutory period for adjusting the annual corporate income tax returns is five preceding tax periods.

The scientific research and experimental development incentive: Accelerated depreciation on qualifying R&D assets

(Mokslinių tyrimų ir eksperimentinės plėtros lengvata)

Description of benefits

Certain fixed assets used in the R&D activity³ may be depreciated with accelerated terms. Depending on the type of fixed asset, the depreciation period might be shortened from eight, five, four or three years to two years. The depreciation and/or amortization period shall not be shorter than stipulated by the Law on Corporate Income Tax. The amount of tax losses, resulting from the accelerated depreciation, may be carried forward for an unlimited period of time provided that the entity carries out the activity due to which the losses were incurred; however, loss carry back is not permitted under current tax legislation.

Guidelines around incentive applications

The incentive applies only with respect to R&D costs incurred during the current period. The accelerated depreciation is claimed in the annual corporate income tax return for the tax period during which R&D costs were incurred. The statutory period for adjusting the annual corporate income tax returns is five preceding tax periods.

³ Such as plant and machinery, equipment, computer and communications equipment including networks and equipment, software, rights acquired and other.

Eligibility requirements

In order to claim the R&D incentive, the performed R&D activity must be related to the usual or intended activities of the entity that generated or will generate income or economic benefit. In addition, the R&D activities performed must have an element of novelty and shall address scientific and/or technological uncertainty. The aim of an R&D project shall be a scientific or technological progress and the results shall be significant not only for person that initiated and executed the project.

The following expenses may be included in calculating R&D incentives:

- ▶ Wages and business trips of employees who are directly involved in R&D works
- ▶ Costs of stock, materials and other short term assets used for R&D activities
- ▶ Costs of acquisition of services directly related to R&D activities (consulting, leasing, repair, warehousing, telecommunication, etc.)
- ▶ Costs of acquisition of R&D activity from other natural persons or legal entities if the acquired R&D activity has been carried out in a state of the European Economic Area or a state with whom Lithuania has a treaty for the avoidance of double taxation
- ▶ Import and input VAT from the abovementioned costs that may not be deducted for VAT purposes
- ▶ Costs of R&D activities shall be based on accounting documents

Three types of research and development activity may qualify for the R&D incentive:

1. Basic research carried out in the acquisition of new knowledge about the essence of phenomena and/or observed reality without aiming, at the time of research, to use the obtained results for a specific purpose
2. Fundamental research carried out for acquiring knowledge and aimed at acquiring specific practical objectives or at solving tasks
3. Experimental development aimed at creating new materials, products and equipment, developing new processes, systems and services or essentially improving those already created or developed; also to create, develop or to essentially improve solutions to problems based on the knowledge acquired through research and practical experience

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Lithuania.

Role of governmental bodies in administering incentives

R&D projects eligibility are administered by the Lithuanian Agency for Science, Innovation and Technology.

R&D incentives applications for tax purposes are governed by the State Tax Inspectorate.

Administrative requirements

No prior review or approval of the Tax Authorities is required to claim an R&D tax incentive. R&D incentives are claimed in the annual corporate income tax return for the tax period during which R&D costs were incurred. The taxpayer must possess R&D documentation (with certain methods and targets stipulated by the legislation) confirmed by the CEO or its authorized person. However, the taxpayer is not required to submit the documentation until the request of the Tax Authorities in case of a tax audit. Also, a taxpayer may apply for approval from the Lithuanian Agency for Science, Innovation and Technology that certain project meets R&D eligibility requirements. However, such approval is not obligatory required.

Statutory reference

- ▶ The Lithuanian R&D incentives were introduced starting January 1, 2008. No changes are expected in the near future.



Luxembourg

Luxembourg

This chapter is based on information current as of 15 March 2014.

Overview

The common Luxembourg incentives framework grants aid of up to 25% of R&D investments. However, the level of aid can be higher. In addition to the R&D incentive program, businesses may be eligible for further incentives, including:

- ▶ A regime for technical feasibility studies (incentive of up to a maximum of 75% of total investment)
- ▶ Support for the creation of young innovative companies (incentive of up to a maximum of €1 million)
- ▶ An incentive for advisory services focused on innovation (incentive of up to a maximum of €200,000)
- ▶ A regime for innovative approaches related to corporate organization and services activities (incentive between 15% and 35% of total investment)

As IP is a key to innovative businesses, Luxembourg has further put in place incentives related to IP applicable as of 2008. Net incomes (i.e., royalties and capital gains) from patents, trademarks, designs, models, domain names or software copyrights benefit from an 80% tax exemption. Furthermore, qualifying IP assets are exempt from net worth tax. These measures demonstrate the Luxembourg Government's general intention to promote Luxembourg as an attractive jurisdiction for R&D as well as IP management activities.

2014 tax rates

Top corporate income tax rate (national and local average)	29.22% ¹
Standard VAT rate	15% ²

¹ Article 174 of the Law of 4 December 1967 on income tax, as amended, and the Law of 21 December 2012 draft law No. 6497. The rate consists of 21% of CIT with an additional 7% of employment fund surcharge and 6.75% of municipal business tax for companies located in Luxembourg City and those with income greater than €15,000. A CIT rate of 20% (plus surcharges) will be applicable on taxable income up to €15,000. As of 1 January 2013, all Luxembourg resident entities in corporate form are subject to a minimum tax regime.

² Article 39 of the Law of 12 February 1979 on VAT, as amended. Also VAT rates of 3%, 6% or 9% are applicable depending on goods or services. The rate is expected to rise to 17% as of January 1 2015.

EY contacts:

John Hames
john.hames@lu.ey.com
+352 42 124 7256

Katia Agazzini
katia.agazzini@lu.ey.com
+352 42 124 7509

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D projects or programs*	Medium-term and long-term loans granted by the Société Nationale de Crédit et d'Investissement (SNCI)	Accelerated depreciation	Partial tax exemption of income derived from qualifying IP
Types of incentives	▶ Cash grants	▶ Loans	▶ Accelerated depreciation on qualifying R&D assets	▶ Tax exemptions

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D projects or programs

(Projets ou programmes de Recherche & Développement)

Description of benefits

The benefits are currently foreseen by two different laws, the law dated 5 June 2009 on the promotion of R&D and innovation (all enterprises) and the law of 30 June 2004 in favor of the sector of SMEs. Aid is granted in the form of a capital subsidy or interest subsidy.

Under the law of 5 June 2009, R&D and innovation aid for eligible businesses and projects may not exceed the following amounts:

- ▶ Fundamental research: maximum 100% of eligible expenses
- ▶ Applied industrial research: maximum 50% of eligible expenses
- ▶ Experimental development activities: maximum 25% of eligible expenses

The following increases may be granted:

- ▶ An increase of 10% where the beneficiary is a medium-sized enterprise or a private research organization fulfilling the criteria of a medium-sized enterprise
- ▶ An increase of 20% where the beneficiary is a small enterprise or a private research organization fulfilling the criteria of a small enterprise

- ▶ An increase of 15% provided the total degree of aid does not exceed 80%, where:
 - ▶ The project or program is based on cooperation between at least two enterprises or private research organizations independent from one another and provided that none of them bears alone more than 70% of the eligible costs and the project or program is realized in cooperation with at least one SME or the project involves cross-border cooperation, i.e., the research or development activities are performed in at least two member states of the European Union.
 - ▶ The project or program is based on cooperation between at least one enterprise and one public research organization independent from one another and provided that the public research organization bears at least 10% of the eligible costs and has the right to publish the results of the project or program.
 - ▶ In the field of industrial research, the results of the project or program are widely broadcast through technical and scientific conferences, published in scientific or technical publications, kept in generally accessible registers or made available via free software.

Luxembourg

Under the law of 30 June 2004, R&D and innovation aid for eligible businesses and projects may not exceed the following amounts:

- ▶ Fundamental research: maximum 75% of eligible expenses
- ▶ Applied research: maximum 50% of eligible expenses
- ▶ Pre-competitive development activities: maximum 25% of eligible expenses

The following increases may be granted, provided that the total degree of aid does not exceed 100% for fundamental research, 75% for applied research and 50% for pre-competitive development activities:

- ▶ An increase of 10% where the beneficiary is a SME fulfilling the criteria of a medium-sized enterprise
- ▶ An increase of 10% where the investment or research project involves cross-border collaboration with at least one independent partner from another EU Member State but does not fall within the scope of the objectives of the EU framework program for R&D
- ▶ An increase of 15% where the investment or research project involves cross-border collaboration with at least two independent partners from two other EU Member States and where it falls within the scope of the objectives of a project or program of the EU framework program for R&D
- ▶ An increase of 25% where, in addition to meeting the conditions of cross-border R&D, the results of such a project are widely disseminated
- ▶ An increase of 25% where the aid is granted for the monitoring of technological development or a feasibility study carried out prior to applied research or pre-competitive development activities

In principle grants are paid in a lump sum after completion of the investment program. However, payments in one or more tranches may be granted in specific cases as the project progresses, in particular where the beneficiary resorts to financing by leasing.

Interest rate subsidies and interest relief amount to the difference between the market interest rates in force at the time the aid is granted, applicable to the category of operation concerned and the reduced interest rate effectively paid by the beneficiary. The interest rate may not be reduced by more than 4 percentage points, nor may it be reduced to below 1%.

Aid may only be allocated once to the same economic entity over a period of 10 years, including in the case of successive takeovers by different natural or legal persons. Aid must be requested within a period of two years from the payment of the expenses for which aid is requested.

To benefit from R&D and innovation aid under this law, the business must:

- ▶ Be established in Luxembourg
- ▶ Offer sufficient guarantees in terms of viability
- ▶ Hold a business permit granted by the Department of Small and Medium-Sized Businesses
- ▶ Be soundly managed
- ▶ Actively contribute to and form part of the country's economic structure

Guidelines around incentive applications

The cash grants are applicable to future investments. The incentives must be claimed via the filing of a specific aid application, which must mandatorily be submitted before the R&D and innovation investments are made or before the relevant connected activities are commenced. Regarding incentives under the law of 2004, the incentive must be claimed within two years from the disbursement of the expenses for which the incentive is claimed. Guidelines for the application of incentives can be found via the following link:

www.innovation.public.lu/en/publications/financements/rdi-entreprise/ligne-directrice-projet-rd/index.html

Medium-term and long-term loans granted by the SNCI

(Prêts à moyen et à long terme octroyés par la Société Nationale de Crédit et d'Investissement)

Description of benefits

The SNCI grants medium-term and long-term loans to industrial enterprises and service providers whose activity represents a significant impact on economic development and whose equity amounts to at least €25,000. The loans are intended to finance:

- ▶ Tangible and intangible assets that are subject to depreciation
- ▶ Land used for professional purposes only

Parts of buildings used for non-professional purposes, automotive equipment and inventory may not be financed by medium-term and long-term loans.

Medium-term and long-term loans may only be requested in respect of investment projects with a value of at least €100,000.

Guidelines around incentive applications

The loans are applicable to future investments. In order to receive loans, the applicant must send an application to SNCI with the following documentation:

- ▶ Description of the enterprise making the investment
- ▶ Detailed description, illustrated with figures, of the planned investment
- ▶ The relevant financing plan
- ▶ Three to five-year business plan
- ▶ Audited annual accounts of the business for the last three financial years

Accelerated depreciation

(Amortissement par annuités décroissantes)

Description of benefits

Standard depreciation for wear and tear may be taken using the annual declining balance depreciation method. Annual declining balance depreciation may be calculated by applying a fixed rate to the book value (remaining value). The rate of the accelerated depreciation applicable to materials and equipment used exclusively in scientific or technical research activities may not exceed four times the rate that would be applied for straight-line depreciation, and it may not be greater than 40%.

Guidelines around incentive applications

The accelerated depreciation on the R&D assets is applicable to current investments. In order to utilize the accelerated depreciation on the R&D assets, a specific appendix must be included in the annual income tax return with the following information:

- ▶ Acquisition or production date
- ▶ Acquisition or production price
- ▶ Ordinary useful life
- ▶ Amount of annual depreciation

Partial tax exemption of income derived from qualifying IP

(Exonération partielle des revenus produits par certains droits de propriété intellectuelle)

Description of benefits

Eighty percent of the net income generated by the exploitation of an IP right is exempt from tax, under certain conditions. The scheme covers patents, trademarks, designs, domain names and software copyrights. The tax exemption only applies provided the following conditions are met:

- ▶ The qualifying IP must have been established or acquired after December 31, 2007.
- ▶ The expenses, amortization and deductions for write-downs related to the right shall be recorded as an asset in the taxpayer's balance sheet.

Also, the qualifying IP must not have been acquired by a person having the status of an affiliated company. A company shall be deemed an affiliated company if it holds a direct participation of at least 10% in the capital of the company earning the income, if at least 10% of its capital is held directly by the company earning the income, or if at least 10% of its capital is held directly by a third company and such third company holds a direct participation of at least 10% in the capital of the company earning the income.

Guidelines around incentive applications

Tax exemptions apply to current investments or insofar as conditions are met. The tax exemption is claimed via the filing of a specific form to be added to the annual income tax return.

Eligibility requirements

The following R&D activities are eligible for the R&D incentives:

- ▶ Fundamental research that aims to increase scientific and technical knowledge not linked to industrial or commercial objectives
- ▶ Applied research that aims to acquire new knowledge in order to develop new products, procedures or services or significantly improve existing products, procedures or services
- ▶ Pre-competitive development activity that consists of using the results of applied research to create a plan, diagram or design of the new, modified or improved products, procedures or services, regardless of whether they are intended for sale or use, including the creation of a prototype that may not be used for commercial purposes

Eligible expenses include:

- ▶ The acquisition or amortization cost of land, infrastructure, constructions, machinery, plant equipment and fittings, provided that these assets are used exclusively for research or development purposes
- ▶ Personnel costs (researchers, technicians, assistants), including the amount representing the social security charges payable by the business
- ▶ Consultancy or similar services, including the purchase of patents, user licenses, technical knowledge or know-how
- ▶ Current expenses (materials, supplies, the use of existing plant and fittings, energy, transport) incurred in carrying out the project
- ▶ Additional overheads and expenses incurred directly as a result of the project

Luxembourg

Costs and expenses relating to the launch and marketing of the products, services or procedures developed as well as interest payable on the financing obtained for research projects are excluded.

These aids are intended for craft and commercial businesses with a business permit granted by the Ministry of Small and Medium-Sized Businesses. They also apply to the following liberal professions: engineers and architects during their first three years of business (as of the date of their first Luxembourg or foreign business permit). However, a limiting list of activities is excluded from being eligible for the aids.

Specific eligibility requirements for each incentive are as below:

- ▶ Cash grants
 - ▶ Eligible entities include any enterprise or research organization established in the territory of the Grand-Duchy of Luxembourg. Eligible expenses include:
 - ▶ R&D projects or programs
 - ▶ Technical feasibility studies
 - ▶ Protection of technical industrial property
 - ▶ Aid for young innovative enterprises
 - ▶ Innovation advisory services and innovation support services
 - ▶ Temporary secondment of highly qualified personnel
 - ▶ Process and organizational innovation in services
 - ▶ Investment in innovation clusters and animation of innovation clusters
 - ▶ De minimis measures
- ▶ Loans
 - ▶ Eligible entities include industrial enterprises and service providers with a significant impact on economic development and whose equity amounts at least €25,000. Eligible expenses include:
 - ▶ Tangible and intangible assets that are subject to depreciation
 - ▶ Land used for professional purposes only
 - ▶ Parts of buildings used for non-professional purposes, automotive equipment and inventory cannot be financed by medium-term and long-term loans. Medium-term and long-term loans may only be requested in respect of investment projects with a value of at least €100,000.
- ▶ Accelerated depreciation on the R&D assets
 - ▶ Eligible entities include all entities or individual subjects exercising a commercial activity in Luxembourg and liable with this income to Luxembourg income tax, provided that the taxpayer who uses the asset is also the owner of the asset. Eligible assets include all assets except buildings. Higher depreciation rates for materials and equipment used exclusively in scientific or technical research activities are available.
- ▶ Tax exemptions
 - ▶ Eligible entities include all entities or individual subjects exercising a commercial activity in Luxembourg and liable with this income to Luxembourg income tax. Eligible assets include software copyrights, patents, trademarks, designs, models and domain names.

IP and jurisdictional requirements

Effective date

The qualifying IP right must have been acquired or developed after 31 December 2007.

Qualifying IP

Qualifying IP includes the following:

- ▶ Software copyrights
- ▶ Patents
- ▶ Trademarks
- ▶ Designs
- ▶ Models
- ▶ Domain names

The IP may not have been acquired from a person that is assimilated to an affiliated company. Company A is considered affiliated to company B in the meaning of the law if:

- ▶ It directly holds at least 10% of the share capital of B.
- ▶ B holds at least 10% of its share capital.
- ▶ At least 10% of the share capital of A and of B is directly held by a third company.

Types of income

- ▶ Royalties
- ▶ Capital gains

In addition, the Luxembourg tax law provides for a deemed deduction for patents developed in-house. This exemption is limited to registered patents only.

Calculation of income

- ▶ Income from IP
 - ▶ Net income is defined in law as the gross royalty income received by the taxpayer (or deemed income for self-developed IP) reduced by the amount of expenses in direct economic connection with this income, including annual depreciations and write-downs. The taxable base is reduced by 80% of the net income.

- ▶ Capital gains on the disposal of IP
 - ▶ Capital gains realized on the disposal of qualifying IP will benefit from an 80% exemption. The capital gain will remain taxable up to the extent of the expenses in direct connection with the income as well as depreciations and write-downs that have reduced the tax base of the taxpayer in the tax year of the disposal or any previous tax year.
- ▶ IP regime rate
 - ▶ Corporate income tax/municipal business tax: for 2013, the general aggregated tax rate (consisting of corporate income tax, solidarity surtax, and municipal business tax) applicable to the Luxembourg tax base amounts to 29.22% for companies registered in the municipality of Luxembourg, leading to an effective tax rate on IP income of 5.84%.
- ▶ Net worth tax: full exemption for qualifying IP rights

Can work be performed outside the country?

- ▶ There is no specification in the IP tax law as to the place of work performance leading to the IP.

Must the IP be registered/owned locally?

- ▶ Yes

Technology or innovation zones

Specific aid is foreseen for investments in innovation clusters and the animation of innovation clusters. An “innovation cluster” is defined as a grouping of independent enterprises or research organizations. This grouping must be active in a particular sector or region or must share similar or complementary interests or skills.

Its aim is to promote innovation by encouraging interaction, the sharing of facilities, and the exchange of knowledge and expertise for the purpose of R&D or innovation as well as to contribute to technology transfer, networking and the dissemination of scientific and technical information between the enterprises and research organizations that compose the grouping. The aid can cover two types of expenses such as investments in an innovation cluster and/or the animation costs of an innovation cluster. All enterprises and all public and private research organizations established in Luxembourg are eligible for these schemes.

The recipient of the aid for investment in an innovation cluster must be responsible for managing the installations and activities of the innovation cluster as well as access to the premises. Access to the premises must be open to enterprises and public or private research organizations that wish to use the cluster's installations. The fees for using the installations must reflect the investment, maintenance and management costs.

The aid for investment expenses can be granted to the manager of an innovation cluster for the following investments:

- ▶ Land and buildings for research laboratories and training facilities
- ▶ Research, laboratory and testing equipment
- ▶ Broadband network equipment

The maximum aid intensity for investment expenses is 15%. Bonuses may be granted to small enterprises (up to 20%), medium-sized enterprises (up to 10%) and in some cases to public research organizations (up to 35%).

Eligible costs for the animation of an innovation cluster are the staff and administrative expenses associated with the following activities:

- ▶ Promotional operations designed to recruit new members
- ▶ Management of the installations of an innovation cluster
- ▶ Organization of training programs, workshops and conferences to facilitate knowledge transfer and networking among the members of an innovation cluster

The aid for animation expenses can be:

- ▶ Linear, limited to 50% of the annual eligible costs over a maximum period of five years
- ▶ Regressive, in which case the intensity can attain 100% in the first year and must subsequently decline, in a linear fashion, to a rate of 0% in the fifth year

Bonuses (up to a total maximum intensity of 75%) and period extensions (up to a maximum of 10 years) may be granted to public research organizations under certain conditions.

Role of governmental bodies in administering incentives

Ministry of the Economy and Foreign Trade

The Department for Research, Development and Innovation within the Ministry of Economy is, together with the Ministry of Finance, in charge of granting incentives for research and innovation projects according to the law dated 5 June 2009. Applications for R&D projects must be sent to this Department. The Ministry of Economy and Foreign Trade and the Ministry of Finance will jointly decide to grant an incentive after taking the opinion of a consulting commission where required.

Ministry of Middle Classes, Tourism and Housing

The Ministry of Middle Classes, Tourism and Housing is in charge of aid schemes as provided for by the law of 30 June 2004 in favor of the sector of SMEs. Applications for the various aid schemes must be sent to the Department "Aides aux PME."

Luxinnovation GIE, National Agency for the Promotion of Innovation and Research

Luxinnovation is an agency that offers support at all stages of innovation and research projects and to provide customized services for project applicants (e.g., identification of the needs of the enterprise or the research organization, guidance on the appropriate funding tool, support for putting together aid application files).

Administrative requirements

Applicants must submit a duly completed application for financial aid to the competent Ministry (either the Ministry of the Economy and Foreign Trade or the Ministry of Middle Classes, Tourism and Housing). Aid is paid out after completion of the investment program and on presentation of the following supporting documents:

- ▶ Invoices and proof of payments (e.g., bank statements)
- ▶ In certain cases, a business plan or equivalent documents or measures proving the viability of the project and the reliability of its promoters

Detailed information and application forms may be accessed via the following links:

- ▶ www.innovation.public.lu/catalogue-publications/financements/rdi-entreprise/recherche-developpement-en.doc
- ▶ www.mcm.public.lu/fr/formulaires/loi_cadre_FR.doc

For loans, the applicant must send an application to SNCI with the following documentation:

- ▶ Description of the enterprise making the investment
- ▶ Detailed description, illustrated with figures, of the planned investment
- ▶ The relevant financing plan
- ▶ Three- to five-year business plan
- ▶ Audited annual accounts of the business for the last three financial years

Statutory reference

The state aid for R&D and innovation for the benefit of the Luxembourg's economy is covered by the law of 5 June 2009 relating to the promotion of R&D and innovation. The current regime will remain applicable at least until 31 December 2014. The application of the IP tax regime provided for by the law dated 21 December 2007 is indefinite. The same applies for the regime of medium-term and long-term loans granted by the SNCI (Grand-Ducal decree dated 14 December 2005) and the accelerated depreciation (article 32 Income Tax Law).



Malaysia

Malaysia

This chapter is based on information current as of 11 April 2014.

EY contact:

Amarjeet Singh
 amarjeet.singh@my.ey.com
 +60 3 7495 8383

Overview

The majority of tax incentives were introduced in Malaysia in the early 1990s. Currently, a wide range of incentives and financial assistance are offered to attract investments in R&D activities.

Companies providing R&D services are eligible for pioneer status or an investment tax allowance (ITA) for qualifying R&D capital expenditure. A double deduction is available for R&D revenue expenditures incurred by companies carrying out in-house R&D or expenditures related to the services of approved R&D service providers. There are also a variety of local Government funding programs to support companies in various industries. Some tax incentives, especially pioneer status, ITA and other tax incentives, are generally mutually exclusive, and taxpayers may only apply for one of the incentives.

2014 tax rates

Corporate income tax rate
 (Income Tax Act 1967)

- ▶ Paid up capital of above MYR2.5 million 25%
- ▶ Paid up capital of MYR2.5 million and less:
 - ▶ On the first MYR500,000 20%
 - ▶ In excess of MYR500,001 25%

Sales tax rate
 (Sales Tax Act 1972) 5% or 10%

Service tax rate
 (Service Tax Act 1975) 6%

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input checked="" type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Pioneer status	ITA	Special incentive scheme*	Incentives for researchers to commercialize research findings	Double deductions	Financial assistance	R&D grants
Types of incentives	<ul style="list-style-type: none"> ▶ Tax holiday 	<ul style="list-style-type: none"> ▶ Tax allowance 	<ul style="list-style-type: none"> ▶ Tax exemption ▶ Tax allowance ▶ Cash grants ▶ Withholding tax exemption 	<ul style="list-style-type: none"> ▶ Tax exemption 	<ul style="list-style-type: none"> ▶ Super deduction 	<ul style="list-style-type: none"> ▶ Financial support 	<ul style="list-style-type: none"> ▶ Cash grants

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Pioneer status

Description of benefits

Qualifying taxpayers are eligible for a 70% to 100% income tax exemption for 5 to 10 years on eligible R&D income; therefore, the value potential depends on the amount of statutory income generated during the tax relief period. There may be certain conditions imposed such as investments in fixed assets, local spending and/or R&D expenditures. Generally, no specific IP requirements are imposed. However, in practice, IP ownership requirements may be imposed depending on the facts of each case. Pioneer status requires taxpayers undertaking the R&D activities to seek approval from the authorities.

Guidelines around incentive applications

Pioneer status is applicable to future investments only (i.e., only projects that have not yet commenced at the time of application are eligible). If projects have already commenced, the authorities take the view that the projects do not require an incentive. Therefore, the application for the incentive should be submitted before the commencement of the respective R&D activity or production of the product concerned.

The incentive is claimed as and when the company files its corporate income tax return (i.e., Form C) for the particular year of assessment. The deadline to submit the income tax returns for companies is seven months from the close of the accounting period.

ITA

Description of benefits

Taxpayers are eligible for 50% to 100% of ITA on qualifying capital expenditure incurred within 10 years. The ITA can be offset against up to 70% of statutory income, and the value potential depends on the amount of qualifying capital expenditures expected to be incurred. There may be conditions imposed, such as investments in fixed assets, local spending and/or R&D expenditures. Generally, no specific IP requirements are imposed. However, in practice, IP ownership requirements may be imposed depending on the facts of each case. Unused ITA can be carried forward indefinitely. ITA requires taxpayers undertaking the R&D activities to seek approval from the authorities.

Guidelines around incentive applications

ITA is applicable to future investments. If projects have already commenced, the authorities take the view that the projects do not require an incentive. Therefore, the application of the incentives should be submitted before the commencement of the R&D activity or production of the promoted product.

The incentive is claimed as and when the company maintains its Form C. The deadline to submit tax returns for companies is seven months from the close of the accounting period.

Special incentive scheme

Description of benefits

The special incentive scheme is a prepackaged incentive scheme approved by the Minister of Finance. It offers two types of incentives:

- ▶ Income tax exemption: taxpayers may be able to negotiate up to 100% income tax exemption for a specific period (e.g., 10 years).
- ▶ ITA: taxpayers may be able to negotiate up to 100% allowance on qualifying capital expenditures incurred for a specific period (e.g., 10 years). The allowance can be offset against up to 100% of statutory income. Any unused tax allowance may be carried forward indefinitely.

The value potential for investors depends on the amount of corporate income tax or qualifying capital expenditures expected to be incurred. There may be conditions imposed, such as investments in fixed assets, local spending and/or R&D expenditures. Generally, no specific IP requirements are imposed. However, in practice, IP ownership requirements may be imposed depending on the facts of each case. The special incentives scheme requires taxpayers undertaking the R&D activities to seek approval from the authorities.

Guidelines around incentive applications

The special incentive scheme is applicable to future investments only. If projects have already commenced, the authorities take the view that the projects do not require an incentive. Therefore, the application for the incentive should be submitted prior to commencement of the R&D activity or production of the promoted product.

The incentive will be claimed as and when the company files its Form C for the particular year of assessment. The deadline to submit tax returns for companies is seven months from the close of the accounting period.

Incentives for researches to commercialize research findings

Description of benefits

Taxpayers are eligible for a 50% income tax exemption on income received from the commercialization of research findings for a period of five years. Generally, no specific IP requirements are imposed. However, in practice, IP ownership requirements may be imposed depending on the facts of each case. The incentive requires the entity undertaking the R&D activities to seek approval from the authorities.

Guidelines around incentive application

The incentive is applicable to future investments only and for researchers who undertake research focused on value creation. The application for the incentive should be submitted before the commencement of R&D activity or production of the promoted product.

The incentive will be claimed as and when the company files its Form C for the particular year of assessment. The deadline to submit tax returns for companies is seven months from the close of the accounting period.

Double deduction

Description of benefits

Taxpayers are eligible for a 200% deduction of qualifying R&D revenue expenditures for eligible R&D activities excluding capital expenditure. The double deduction is applicable only to revenue expenditures including cash contributions or donations made to approved research institutes and payments for the use of the services of approved research companies, contract R&D companies and R&D companies. Approval of each research project has to be obtained before claiming a double deduction on R&D revenue expenditures.

Guidelines around incentive applications

The double deduction is claimed as and when the company files its Form C for the particular year of assessment. The deadline to submit tax returns for companies is seven months from the close of the accounting period. R&D revenue expenditures that qualify for double deduction include raw materials and manpower used in research; technical services procured; travel costs; maintenance; and rental of motor vehicles, buildings and equipment.

Financial assistance

Description of benefits

Financial assistance schemes currently include ScienceFund, Pre-Commercialisation Funds, Commercialisation of Research and Development Fund, and the Cradle Investment Programme. The quantum of fund approved will be determined based on the merits of each application and the value potential varies depending on the fund approved. The financial assistance schemes are required to put in their application to the respective authorities as follows:

- ▶ ScienceFund and Pre-Commercialisation Fund: Ministry of Science, Technology & Innovations (MOSTI)
- ▶ Commercialisation of Research and Development Fund: Malaysian Technology Development Corporation Sdn Bhd (MTDC)
- ▶ Cradle Investment Programme: Cradle Fund Sdn Bhd

Guidelines around incentive applications

Financial assistance schemes are applicable to future investments only and only for projects approved by the relevant authorities. Applications for financial assistance should be submitted before the commencement of the proposed project. The majority of the financial assistance will be received based on percentage of work done, and claims must be submitted to the relevant authorities.

R&D grants

Description of benefits

R&D grants are available under the special incentive package, which is a reimbursable dollar-for-dollar grant on qualifying R&D expenditure. There may be conditions imposed on R&D expenditures. To obtain a cash grant, taxpayers undertaking the R&D activities must gain approval from the authorities.

Guidelines around incentive applications

R&D grants are applicable to future investments. Grants are made based on reimbursement basis and only for projects approved by the relevant authorities. The Government may impose conditions based on the type of projects, such as percentage of R&D personnel involved, minimum level of fixed asset investment and/or minimum local spending levels. R&D grant claims are based on reimbursement basis and must be submitted as and when the company incurs the expenditure.

Eligibility requirements

Under the Promotion of Investments Act 1986, R&D is defined as any systematic or intensive study carried out in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, produce or processes, but it does not include the following:

- ▶ Quality control of products or routine testing of materials, devices, products or produce
- ▶ Research in the social sciences or humanities
- ▶ Routine data collection
- ▶ Efficiency surveys or management studies
- ▶ Market research or sales promotion

Qualifying expenditures include those incurred in R&D on the condition that the research is scientific in nature and is related to the business of the company.

Eligibility requirements for specific incentives are set out below.

Pioneer status

Eligibility criteria varies across different types of projects, and the Government may impose additional conditions based on the type of project, such as percentage of R&D personnel involved, minimum level of fixed asset investment and/or minimum local spending levels. Eligibility requirements for specific types of R&D operations are as below:

Contract R&D and R&D companies

Research undertaken should be in accordance with the needs of the country and bring benefits to the economy. The conditions are the following:

- ▶ At least 70% of the income of the company should be derived from R&D activities.
- ▶ For manufacturing-based R&D, at least 50% of the workforce of the company must be appropriately qualified personnel performing research and technical functions.
- ▶ For agriculture-based R&D, at least 5% of the workforce of the company must be appropriately qualified personnel performing research and technical functions.

Commercialization of public sector R&D

- ▶ At least 70% of the investing company (holding company) and the company undertaking the commercialization projects must be owned by Malaysian nationals.
- ▶ The company that invests should own at least 70% of the equity of the company that commercializes the R&D findings.
- ▶ The commercialization of the R&D findings should be implemented within one year of the date of the incentive's approval.

Industrial design services

This applies to:

- ▶ New service providers who employ at least 50% Malaysian designers
- ▶ Existing industrial design service providers undertaking expansion and non-industrial design service providers that would be carrying out industrial design activities, including:
 - ▶ Upgrading the design facilities by increasing the capital investment by at least 50%
 - ▶ Employing an additional 50% qualified Malaysian designers

▶ Other conditions are the following:

- ▶ The industrial design service providers and Malaysian designers must be registered with the Malaysia Design Council.
 - ▶ The industrial design service providers must be incorporated under the Companies Act 1965 or registered under the Business Registration Act 1956 and shall provide industrial design services to non-related companies.
 - ▶ The industrial design services provided should be meant for mass production.
- ▶ These measures are effective from 8 October 2011 until 31 December 2016 since this incentive is only applicable to industrial design services.

ITA

Eligibility criteria varies across different types of projects, and the Government may impose additional conditions based on the type of project, such as percentage of R&D personnel involved, minimum level of fixed asset investment and/or minimum local spending levels. Eligibility requirements for specific types of R&D operations are as below:

Contract R&D and R&D companies

Research undertaken should be in accordance with the needs of the country and bring benefits to the economy. The conditions are the following:

- ▶ At least 70% of the income of the company should be derived from R&D activities.
- ▶ For manufacturing-based R&D, at least 50% of the workforce of the company must be appropriately qualified personnel performing research and technical functions.
- ▶ For agriculture-based R&D, at least 5% of the workforce of the company must be appropriately qualified personnel performing research and technical functions.

Special incentive scheme

- ▶ In order to receive benefits from the incentive, the company must be incorporated and resident in Malaysia.
- ▶ The benefits will be subject to conditions as stated by the Minister of Finance in the approval letter.
- ▶ The Ministry of Finance or the Minister of International Trade and Industry will determine the commencement of the exempt period.

Incentives for researchers to commercialize research findings

- ▶ The application for approval of the commercialization project shall be made to the Malaysian Investment Development Authority (MIDA) on or after 29 September 2012 but not later than 31 December 2017.
- ▶ In order to receive the benefit, the company should be incorporated in Malaysia.
- ▶ The commercialization project shall commence within one year from the date of approval issued by the MIDA.

Double deduction

- ▶ Research undertaken must be in accordance with the needs of the country and bring benefits to the Malaysian economy.
- ▶ Foreign researchers may be employed. However, the company should endeavor to train Malaysian nationals.
- ▶ Activities that involve only testing a product to conform its properties to the required standards for compulsory registration of the product as required by any laws in Malaysia (such as for agricultural chemicals and pharmaceutical products) are not considered R&D project activities for the purposes of claiming double deduction.
- ▶ All R&D activities must be undertaken in Malaysia.

R&D grants

- ▶ The levels of benefits for the grants are subject to conditions as stated in the approval letter.

IP and jurisdictional requirements

There is no restriction on where the IP must be performed at this juncture except for those conditions imposed by the authorities.

Proposed R&D incentive in bioeconomy industry

In the Budget 2014 which was announced on 25 October 2013, companies in bioeconomy industry may enjoy tax deduction on the acquisition cost of technology platform in bio-industry used in R&D activities and import duty exemption on R&D equipment acquired for the purpose of pre-commercialization in Malaysia. In addition, the Government also proposed a special incentive in the form of grant to partially cover the operational cost of human capital development in respect of Centre of Excellence for R&D. To be considered for the incentive, applications should be submitted to Biotechnology Corporation Sdn Bhd from 1 January 2014 to 31 December 2018. However, at this juncture, there are no further details available for the proposed tax incentives.

Technology or innovation zones

Multimedia Super Corridor (MSC) Malaysia is Malaysia's national information and communications technology (ICT) initiative designed to attract world-class technology companies while developing the local ICT industry. Fully supported by the Malaysian Government, MSC Malaysia has led the nation's transformation toward a knowledge economy over the past decade and a half.

Companies undertaking MSC-qualifying activities (such as software development or hardware design) qualify for the following incentives:

- ▶ Pioneer status: 100% income tax exemption for up to 10 years
- ▶ ITA: 100% allowance on qualifying capital expenditure incurred within 5 years, which can be offset against up to 100% of statutory income

Companies may also enjoy other incentives including:

- ▶ Duty-free importation of multimedia equipment
- ▶ Unrestricted employment of foreign workers
- ▶ Freedom of ownership
- ▶ Freedom to source capital globally for MSC infrastructure and the rights to borrow funds globally
- ▶ Withholding tax exemption on technical advice or technical services, licensing fees and interest payments to nonresidents

To be eligible for MSC Malaysia status, a company must:

- ▶ Provide or heavily use information technology and multimedia products and services
- ▶ Employ a substantial number of knowledge workers
- ▶ Have a strong value proposition which specifies how operations will contribute to the development of MSC Malaysia
- ▶ Establish a separate legal entity for MSC-qualifying activities
- ▶ Locate in MSC Malaysia-designated Cybercities or Cybercentres
- ▶ Comply with environmental guidelines

Applications must be submitted to the Multimedia Development Corporation.

Role of governmental bodies in administering incentives

There are various Government agencies involved in administering the R&D incentives. The main agencies are the following:

- ▶ **MIDA:** MIDA is the Government's principal agency for the promotion of the manufacturing and services sectors in Malaysia. It assists companies intending to invest in the manufacturing and services sectors, and facilitates the implementation of their projects. MIDA also evaluates tax incentive applications for projects in the manufacturing and related services sectors.
- ▶ **Malaysian Inland Revenue Board (MIRB):** MIRB acts as an agent of the Government and provides services in administering, assessing, collecting and enforcing payment of income tax and other taxes. It advises the Government on matters relating to taxation and liaises with the appropriate ministries and statutory bodies on such matters.

The other government agencies include:

- ▶ **Ministry of Finance:** The Ministry of Finance formulates and implements fiscal and monetary policies in Malaysia. The Ministry of Finance has the authority to grant tax incentives including pioneer status, ITA, special incentive scheme, incentives for research and commercialization of research findings, double deductions, and R&D grants.
- ▶ **MOSTI:** MOSTI leads the National Information and Communication Technology Department function, multimedia and innovation. MOSTI evaluates and approves applications for ScienceFund and the Pre-Commercialisation Fund.
- ▶ **MTDC:** MTDC was set up in 1992 to promote the adoption of technologies by local companies via commercialization activities of local inventions or acquisition of foreign technologies. MTDC evaluates and approves applications for commercialization of R&D fund applications from companies.
- ▶ **Cradle Fund Sdn Bhd:** Cradle Fund Sdn Bhd was set up to encourage, support, stimulate and nurture the development of Malaysian entrepreneurship in ICT, biotechnology and life sciences, material sciences and high-growth technology industries, and the generation of ideas for an innovative knowledge-based society and economy. Cradle Fund Sdn Bhd evaluates and approves applications for Cradle Investment Programme applications.

Administrative requirements

- ▶ Applications for pioneer status, ITA incentives or the special incentive scheme are required to be submitted to MIDA.
- ▶ Applications for financial assistance should be submitted to the relevant authorities highlighted above.
- ▶ All double deduction claims should be submitted to the MIRB.
- ▶ The MIRB monitors and processes pioneer status, ITA claims and certain incentive claims.

Statutory reference

- ▶ Promotion of Investments Act 1986
- ▶ Income Tax Act 1967



Mexico

Mexico

This chapter is based on information current as of 15 March 2014.

EY contacts:

Rodrigo Castellanos

rodrigo.castellanos@mx.ey.com

+1 52 55 5283 1463

Fernando Escamilla

fernando.escamilla@mx.ey.com

+1 52 55 5283 1418

Overview

The Special Program of Science, Technology & Innovation 2015 (PECITI) is designed to encourage the social acquisition of knowledge and innovation, and is recognized as strategically important for development of the Mexican economy. As a result of previous national programs and the strategic targets of the National Council of Technology & Science (CONACyT), the following programs were created:

- ▶ Technological Innovation for Competitiveness
- ▶ Technological Innovation of High Added Value, and Development
- ▶ Innovation on Initial Technologies

It is important to note that CONACyT published 2015 public notice for cash grants on 9 September 2014. In order to obtain cash grants for 2015 R&D expenses, companies are required to submit their projects by 7 November 2014.

2014 tax rates

Top corporate income tax rate (federal and state average)	30% ¹
Sales and service tax rate	16% ²

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

¹ Article 9, first paragraph of the Federal Revenue Law for 2014.

² Article 1 of the Value Added Tax Law.

Incentives available

Names of incentives	Technological Innovation of High Added Value (INNOVAPYME)	Development and Innovation on Initial Technologies (PROINNOVA)	Technological Innovation for Competitiveness (INNOVATEC)
Types of incentives	▶ Cash grants	▶ Cash grants	▶ Cash grants

Technological innovation of high added value (INNOVAPYME)

Description of benefits

INNOVAPYME is granted as cash grants of a percentage of eligible expenses in the year when the expenses were incurred. The incentive is granted to technologically innovative companies that provide high levels of added value. The criteria for these companies are as follows:

- ▶ Companies created for micro, small and medium companies (MIPYMES);
- ▶ Companies engaged in R&D projects that perform activities related to R&D or technology and innovation

Or

- ▶ Companies associated with universities, research centers or institutes that perform R&D projects.

The grants provided through INNOVAPYME are up to US\$1.6 million per company for eligible R&D expenses paid by the Mexican company. The benefits provided under the INNOVAPYME program are:

- ▶ Thirty percent of the current year's expenditure on an individual project
- ▶ Thirty-five percent of the current year's expenditure and 75% of research centers' and universities' expenditure incurred during the current year on linked projects.

Taxpayers are required to seek the preapproval from CONACyT in order to obtain INNOVAPYME.

Guidelines around incentive applications

The incentive is applicable to current investments in the same fiscal year in which the incentive is granted. Taxpayers are required to submit their proposals prior to November 7, 2014 and sign a Resource Allocation Agreement in order to receive formalized support for the allocation of resources to selected projects. The deadline for signing such an agreement is usually June or August of each year.³ By signing the agreement, taxpayers will receive benefits as determined by CONACyT.

³ However, in order to obtain cash grants for 2015 R&D expenses, the expected deadline of signing such an agreement is March or April 2015.

Development and innovation on initial technologies (PROINNOVA)

Description of benefits

PROINNOVA is granted as cash grants of a percentage of eligible expenses on the year that those expenses were incurred. The incentives are given to companies engaged in the development and innovation of initial technologies. To receive the incentive, the leading company representing the “net,”⁴ should submit a proposal to CONACyT. For MIPYMES or large companies, the proposal should be submitted in association with at least two research centers or universities.

The grants provided through PROINNOVA are up to US\$2.08 million per company for eligible R&D expenses paid by the Mexican company. The benefits provided under the PROINNOVA program are:

- ▶ MIPYMES: 50% of the current year’s expenditures and 75% of research centers’ and universities’ expenditure incurred in the current year
- ▶ Large companies: 35% of the current year’s expenditure and 75% of research centers’ and universities’ expenditure

Taxpayers are required to seek preapproval from CONACyT in order to obtain PROINNOVA.

Guidelines around incentive applications

The incentive is applicable to current investments of the same fiscal year in which the incentive is granted. Taxpayers are required to sign a Resource Allocation Agreement in order to receive formalized support for the allocation of resources to selected projects. The deadline for signing such an agreement is usually June or August of each year.⁵ By signing the agreement, the taxpayer will receive benefits as determined by CONACyT.

Technological innovation for competitiveness (INNOVATEC)

Description of benefits

INNOVATEC is granted as cash grants of a percentage of eligible expenses in the year in which those expenses were incurred. The incentive is granted to companies engaged in technological innovation for competitiveness. In order to qualify for the INNOVATEC, the company must:

- ▶ Perform activities related with R&D or technological innovation
- ▶ Try to encourage company competitiveness and articulate productive chains with research, development or technological innovation activities
- ▶ Try to propose infrastructure investments (physical and human resources) designed to create new high-value jobs
- ▶ Give priority to those proposals that are linked with universities, research centers or institutes

The grants provided through INNOVATEC are up to US\$2.77 million per company for eligible R&D expenses paid by the Mexican company. Benefits provided under the INNOVATEC program are:

- ▶ Twenty-five percent of the current year’s expenditure on an individual project
- ▶ Thirty percent of the current year’s expenditure and 75% of research centers’ and universities’ expenditure on linked projects incurred in the current year

Taxpayers are required to seek the preapproval from CONACyT to obtain INNOVATEC.

⁴ A “net” is formed by at least one company and at least two universities or research institutions which will jointly perform an R&D project.

⁵ However, in order to obtain cash grants for 2015 R&D expenses, the expected deadline of signing such an agreement is March or April 2015. CONACyT, however, has not announced the official deadline for the agreements yet.

Guidelines around incentive applications

The incentive is applicable to current investments of the same fiscal year in which the incentive is granted. Taxpayers are required to sign a Resource Allocation Agreement in order to receive formalized support for the allocation of resources to selected projects. The deadline for signing such an agreement is usually June or August of each year.⁶ By signing the agreement, the taxpayer will receive benefits as determined by CONACyT.

Eligibility requirements

Eligible companies are those incorporated in Mexico, resident in the country for tax purposes and that currently perform R&D activities. No industry sectors are excluded.

Qualifying expenses are defined as follows:

- ▶ Expenditures related to research centers or universities
- ▶ Salaries related to the project
- ▶ Tickets and travel expenses incurred by staff engaged on the project
- ▶ Expenditure records of titles of protection of intellectual property
- ▶ Studies, technological analysis, diagnostic, audit or surveillance technology
- ▶ Expenditures of incorporation of teachers and/or doctors related to the project
- ▶ Expenses incurred in the provision of infrastructure
- ▶ National and foreign consulting and technology consulting
- ▶ Prototypes, models and their evaluation

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones that provide R&D incentives in Mexico.

Role of governmental bodies in administering incentives

CONACyT is the responsible Government entity for project evaluation and assignment of incentive resources.

⁶ However, in order to obtain cash grants for 2015 R&D expenses, the expected deadline for signing such an agreement is March or April 2015. CONACyT, however, has not announced the official deadline for the agreements yet.

Administrative requirements

Taxpayers are required to obtain preapproval from CONACyT in order to receive cash grants. The following information is required to be submitted to CONACyT in order for a taxpayer to receive preapproval:

- ▶ Taxpayer ID number
- ▶ Valid registration in the National Register of Scientific and Technological Institutions and Companies
- ▶ Presentation of the R&D project in accordance with the applicable modality in terms of the notice
- ▶ Required information in accordance with the reference terms of the public notice
- ▶ A legal representative with the capacity to subscribe debt securities
- ▶ The legal representative must have electronic tax signature (FIEL)
- ▶ The legal, administrative and technical representatives and the project personnel must have a CV in CONACyT system (CVU)

Taxpayers must carry out the procedures and document delivery after obtaining the incentive. For delivery of the resources, the company must obtain and maintain a security or guarantee instrument determined by the CONACyT in the formalization process, among additional information mentioned in the reference terms.

Statutory reference

There is no regulation related to the incentives; however, the Government provides guidelines through Federal Expenditure and National Plan of Development 2013-2018. Reference terms are issued by CONACyT annually detailing the specific rules to be applied in the following year for R&D incentives.



Netherlands

Netherlands

This chapter is based on information current as of 15 March 2014.

EY contacts:

Ben Kiekebeld
ben.kiekebeld@nl.ey.com
+31 88 40 78457

Bram de Nies
bram.de.nies@nl.ey.com
+31 88 40 78461

Overview

The Dutch program of incentives to stimulate R&D activities covers the whole R&D lifecycle, from development to the exploitation of successful R&D. The Government emphasizes the importance of R&D and its willingness to stimulate these activities. This is being underlined by the cooperative attitude of the Government organizations that are involved with the implementation of the various incentives. Dutch R&D incentives make a distinction between costs and investment-based incentives on the one hand and a profit-based incentive on the other hand.

The Netherlands has several incentives to lower R&D costs and investments for an entrepreneur and/or company. This includes the R&D tax credit, which reduces social security contributions; the R&D allowance (RDA), which allows for a 160% super deduction of qualifying costs; the one-time full amortization for R&D intangible assets; and an R&D deduction which allows for a fixed additional deduction for entrepreneurs.

Furthermore, qualifying profits can be taxed in the innovation box. Effectively, these profits would be taxed at a rate of 5%.

2014 tax rates

Top corporate income tax rate (national and local average)	25% ¹ (20% for the first €200,000)
Standard VAT rate	
▶ General rate	21%
▶ Certain items	6% ²

¹ 2013 Worldwide Corporate Tax Guide, EYGM Limited, July 2013.

² A reduced rate of VAT of 6% is applicable on certain items including food products, books, medicines, art, antiques, entry to museums, zoos, theatres and sports.

³ The Government provides financial supports for SMEs' easier access to the capital market. For additional information related to the financial supports, please contact EY Netherlands.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input checked="" type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support ³	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D tax credit	R&D Allowance (RDA)	Innovation box*	Top consortia for knowledge and innovation (TKI)	One-time full amortization for R&D intangible assets	R&D deduction
Types of incentives	<ul style="list-style-type: none"> ▶ Tax credit ▶ Income tax withholding incentives ▶ Reduced social security contributions (available for employers) 	<ul style="list-style-type: none"> ▶ Super deduction based on costs and investments (available for personal and corporate income tax) 	<ul style="list-style-type: none"> ▶ Reduced corporate income tax rate 	<ul style="list-style-type: none"> ▶ Cash grants for partnerships between private and public parties 	<ul style="list-style-type: none"> ▶ Full amortization for R&D intangible assets (available for personal and corporate income tax) 	<ul style="list-style-type: none"> ▶ Fixed super deduction for personal income tax

* Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D tax credit

(Afdrachtvermindering Speur & Ontwikkelingswerk (WBSO))

Description of benefits

The R&D tax credit lowers the wage withholding tax payable by the employer. A tax credit of 35% is applicable for the first €250,000, and 14% is applicable to the remaining eligible R&D wages costs. For the first five years in which the taxpayer functions as an employer the percentage for the first €250,000 is increased to 50%. The total annual benefit of lowering the wage withholding tax is limited to €14 million. Repayment is required in cases where realized R&D hours are less than forecast.

Guidelines around incentive applications

The R&D tax credit is applicable for future activities. In order to claim the R&D tax credit, an application form should be filed with Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency), a department within the Dutch Ministry of Economics. The application should be filed in advance, no later than one month prior to the start of the period covered by the application. Three applications may be filed per calendar year. These applications must cover a minimum period of three-month and a maximum period of twelve months within the same calendar year. A calendar month can only be used in filing one application therefore no overlap of months is allowed. The R&D credit for future activities can be claimed as long as the qualifying activities are performed.

R&D Allowance (RDA)

(Research & Development Aftrek)

Description of benefits

An extra deduction of 60% (in 2014) is available for eligible R&D costs and investments. Any NOLs resulting from the deduction may be carried back for one year (for CIT) or three years (for individual income tax) and be carried forward for nine years. Repayment is required if the realized R&D costs and investments are less than forecast. Companies are required to seek preapproval in order to obtain the R&D credit.

Guidelines around incentive applications

RDA is applicable for future costs and investments and must be claimed simultaneously with the R&D tax credit. Accordingly, similar conditions apply and reference is made to the R&D tax credit applicability in this respect. In addition, the taxpayer must clarify the factual R&D costs and investments of a year within three months of end of the calendar year. If actual R&D costs and investments are lower than the already claimed R&D costs and investments, a correction should be made. RDA for future costs and investments may be claimed so long as an R&D declaration is in place to which cost and investments can be linked.

Innovation box

(Innovatiebox)

Description of benefits

Under the innovation box incentive, eligible R&D income is effectively be taxed at 5% instead of the statutory CIT rate of 25%. Losses are deductible at the statutory rate of 25%, but future profit will be taxed at 25% for the amount of the loss related to the R&D allocated to the innovation box. Any NOLs resulting from the incentive can be carried back for one year (for CIT) and carried back for nine years.

Guidelines around incentive applications

The innovation box is applicable to retroactive, current or future investments. The incentive applies retroactively as long as the tax return has not yet been finalized or the finalized tax return is still open for appeal. The innovation box is ultimately claimed in the CIT tax return. However, it is advisable to conclude an Advance Tax Ruling with the Dutch tax authorities on the application for use of the innovation box in advance. The innovation box may be claimed as long as the tax assessment has not been finalized.

Top consortia for knowledge and innovation (TKI)

(Topconsortia voor Kennis en Innovatie)

Description of benefits

The TKI is a partnership between public entities and private parties or investors. Cash grants of 40% are available on the private investment costs for the first €20,000 and 25% for the excess. In order to receive TKI, the cash grant has to be invested in the R&D project of the partnership. Companies are required to seek preapproval to obtain TKI.

Guidelines around incentive applications

TKI is applicable for future investments. A specific form should be filed in advance with Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency). In order to claim the incentive for the taxable year of 2014, taxpayers should file the form by 15 September 2014. TKI may be claimed for investments made by the private party and the grants have to be invested during the R&D project.

One-time full amortization for R&D intangible assets

(Afschrijving ineens zelf ontwikkelde immateriele activa)

Description of benefits

Under this incentive, self-developed intangibles are not effectively included on the fiscal balance sheet but are fully amortized at the moment they are realized, instead of amortization over the intangibles entire life cycle. Any NOLs resulting from the amortization may be carried back one year (for CIT) or three years (for individual income tax) and be carried forward for nine years.

Guidelines around incentive applications

The incentive is applicable to retroactive investments. The incentive should be claimed in the tax return. So long as the final tax assessment has not been issued, amendments to apply should be possible.

R&D deduction

(Aftrek Speur- en ontwikkelingswerk)

Description of benefits

The lump-sum deduction for an individual (entrepreneur) who performs R&D activities is €12,310 or €18,467 for the first five years of an enterprise's life. Any NOLs resulting from the deduction may be carried back for three years and carried forward for nine years. Full adjustment of the deducted amount will take place if the total R&D hours are less than 500 per calendar year. Individuals (entrepreneurs) are required to seek preapproval (similar to the R&D tax credit) in order to obtain the R&D deduction.

Guidelines around incentive applications

The R&D deduction is applicable for future activities. The R&D deduction should be claimed in the tax return. So long as the final tax assessment has not been issued, amended returns to apply for the deduction should be possible. In order to claim the incentive, an R&D declaration is required.

Eligibility requirements

Qualifying activities include:

- ▶ Technical scientific research
- ▶ Development of (fully or partially) new technical products, processes or software
- ▶ Analysis of the technical feasibility of an R&D project
- ▶ Technical research aimed to improve or change a company's own physical production process or software
- ▶ Contract R&D (under certain circumstances)
- ▶ Cost contribution arrangements (under certain circumstances)
- ▶ Patented IP
- ▶ Plant breeder rights

Eligible expenses include any R&D costs (i.e., wage costs for R&D employees, other R&D-related costs and R&D investment expenses) and other expenses that are directly related to the R&D projects. R&D-related costs and R&D investment expenses must be solely linked to activities performed under an R&D declaration. Examples of such costs include specific equipment or instruments for R&D, specific equipment or instruments for the manufacturing of models, and trial batches or prototypes. Any specific software and/or computer equipment used for R&D also qualify. Investments in land are excluded. Costs that are linked to activities performed under an R&D declaration include costs related to consumer goods, materials and raw materials; costs related to experiments, the production of trial batches, materials and parts regarding the manufacturing of prototypes by the taxpayer itself or by third parties; acquisition of licenses for specific software packages or ICT tools; carrying out of measurements or testing of prototypes; and rental of equipment from third parties. Eligible costs exclude costs with respect to outsourced research, costs of hiring labor, financing costs, costs of acquiring or improving land and costs of providing assets

to another party that have been part of an RDA petition of an affiliated company. The wage costs for R&D employees may include technical scientific research, development of (fully or partially) new technical products, processes or software, analysis of the technical feasibility of an R&D project, and technical research aimed to improve or change a company's own physical production process or software.

Eligibility is not limited to specific industries. Specific eligibility for each incentive is as follows:

- ▶ Employees must perform the following R&D activities:
 - ▶ Technical scientific research
 - ▶ Development of (partially) new technical products, processes or software
 - ▶ Analysis of the technical feasibility of the company's own R&D project
 - ▶ Technical research aimed to improve or change the company's own physical production process or software
- ▶ RDA: R&D costs (not being labor costs) and investments have to relate directly to projects for which an R&D declaration has been granted to the taxpayer.
- ▶ Innovation box: the incentive is granted for self-developed IP for which a patent or plant breeder right has been granted to the taxpayer and/or for which the R&D activities are covered by a R&D declaration obtained by the taxpayer.
- ▶ TKI: funds will be granted only to an entity approved in advance, in which private and public parties cooperate to perform R&D activities.
- ▶ One-time full amortization for R&D intangible assets: the taxpayer has to self-develop the intangible asset.
- ▶ R&D deduction: the individual has to obtain an R&D declaration, which may be granted if the hours spent on the enterprise amount to at least 1,225 hours, of which a minimum of 500 hours per calendar year are spent on R&D.

IP and jurisdictional requirements (innovation box)

Effective date

January 2007

Qualifying IP

Self-developed IP for which a patent or plant breeder right has been granted to the taxpayer and/or for which the R&D activities are covered by an R&D declaration obtained by the taxpayer

Types of income

Embedded income in turnover derived from finished product and capital gained on sale of the IP

Calculation of income

Practical approach (residual profit method or cost-plus approach) is accepted in negotiations with tax authorities

IP regime rate

5% on qualifying income instead of statutory CIT rate (25%)

Can work be performed outside the country?

Yes, under certain circumstances

Must the IP be registered/owned locally?

Yes. The IP must be owned locally.

Other requirements

All patents and plant breeder rights will provide access as long as it would also have been granted under the legislation that is applicable in the Netherlands. In addition, an R&D declaration will also provide access to the innovation box. Companies must demonstrate their R&D activities to access the actual amount of the profit that can be allocated to the innovation box. It is common practice that this is discussed with the tax authorities and set in a ruling.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in the Netherlands.

Role of governmental bodies in administering incentives

The innovation box, one-time full amortization for R&D intangible assets, and R&D deduction fall under the jurisdiction of the Dutch Tax Authorities. Especially for the innovation box, the Dutch tax authorities are cooperative in obtaining a ruling that provides certainty for several years on applying the innovation box.

The R&D tax credit, RDA, and TKI fall under the Dutch Government agency Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency).

Administrative requirements

The R&D tax credit, RDA, and TKI have to be obtained in advance by filing a request at Rijksdienst voor Ondernemend Nederland (Netherlands Enterprise Agency). After the incentive is granted, progress in terms of realized worked hours, costs and investment has to be administrated and filed at the agency after the financial year has ended.

Statutory reference

- ▶ R&D declaration (1994): Dutch stimulation for R&D act
- ▶ R&D allowance (2012): art. 3.52a, Dutch income tax act 2001
- ▶ TKI (2013): Decree of Ministry of Economic Affairs, WJZ/12045145
- ▶ Innovation box (2007): art. 12b, Dutch CIT act 1969
- ▶ Full depreciation at once of R&D intangible (2001): art. 3.30, section 3, Dutch income tax act 2001
- ▶ R&D deduction (1994): art. 3.77, Dutch income tax act 2001



Norway

Norway

This chapter is based on information current as of 15 March 2014.

EY contact:

Arild Vestengen

arild.vestengen@no.ey.com

+47 24 00 25 92 / +47 98 20 62 92

Overview

Norway introduced a tax credit scheme in 2002, as part of its R&D incentives framework, making it the first Nordic country to include such a scheme in tax law. The tax credit scheme (referred to as SkatteFUNN) allows taxpayers to take direct deductions as a percentage of tax liabilities and social security contributions, up to 20% combined. This direct deduction is calculated in accordance with the rules provided by the Research Council of Norway for user-led R&D projects. In order to benefit from the deduction, the council must approve the R&D project. The deduction may be taken in addition to regular deductions for taxable income.

The introduction of the tax credit scheme was the result of a proposition made by the Hervik Commission¹ in a green paper for the Ministry of Trade, Industry and Fisheries in 2000 (NOU 2000:7). Prior to this green paper, there had been a political consensus to focus on R&D incentives in order to facilitate investment and innovation in Norwegian industry and to reach the OECD R&D average.

2014 tax rates

Top corporate income tax rate (federal and state average)	27% ²
Standard VAT rate	25% ³

¹ The Hervik Commission was appointed by the Norwegian government to suggest policy measures aimed at encouraging industry to invest more in R&D.

² "2014 Global tax policy outlook," EY website, www.ey.com/GL/en/Services/Tax/International-Tax/2014-tax-policy-outlook-Norway.

³ Ibid.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Tax credit scheme (SkatteFUNN)*	Cash grants/financial support	Loans and warranties
Types of incentives	<ul style="list-style-type: none"> ▶ Tax credit and reduced social security contributions 	<ul style="list-style-type: none"> ▶ Cash grants 	<ul style="list-style-type: none"> ▶ Loans

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

Tax credit scheme

(SkatteFUNN)

Description of benefits

Taxpayers may take direct deductions as a percentage of their tax liabilities and social security contributions, up to 20% combined.

Guidelines around incentive applications

The incentive is applicable to current, future and retroactive investments. In order to secure the tax deduction, taxpayers are required to submit an application for preapproval to the Research Council of Norway. The deduction is claimed within the corporate income tax return (Form RF-1053). There is a continuous deadline for applying for tax relief through SkatteFUNN, but in order for the application to be receive guaranteed processing within the same taxable year, it must be made before 1 September. In order to receive the incentive for a retroactive project, costs must be incurred prior to the preapproval of the project but in the same taxable year as the approval is given.

Cash grants/financial support

(Økonomiske tilskudd)

Description of benefits

Governmental agencies or partially state-owned organizations, such as Innovasjon Norge (Innovation Norway), provide cash grants or financial support. The amount granted varies with the development phase and the kind of project, business and subject area. Giving a general estimate is therefore difficult. However, such grants must be in compliance with the European Free Trade Association (EFTA) Surveillance Authority guidelines on state funding, based on the EU regulation on state funding, thus limiting the amount.

As an example, this means that the cost coverage regarding Industrial Research and Development Contracts ("Industrielle Forsknings- og Utviklingskontrakter, or IFU) and Public Research and Development Contracts ("Offentlige forsknings-og utviklingskontrakter," or OFU) is limited to 50% for small and medium-sized businesses and 40% for large businesses in the preliminary project phase. In the development/prototyping phase, it is limited to 45% for small businesses, 35% for medium-sized businesses and 25% for large businesses.

Guidelines around incentive applications

The incentive is applicable to current and future investments. In order to receive the incentive, taxpayers are required to obtain preapproval from Innovation Norway.

Loans and warranties

(Lån og garantier)

Description of benefits

Innovation Norway also offers support such as loans and warranties. The same benefit applies as cash grants/financial support.

Guidelines around incentive applications

The incentive is applicable to current and future investments. In order to receive the incentive, taxpayers are required to obtain preapproval from Innovation Norway.

Eligibility requirements

Qualifying expenses include all expenses that are deductible according to the general tax rules, provided that the expenses are related to R&D projects. Qualifying activities include development of new goods, services or manufacturing processes. There is no limitation regarding types of industries, and the incentives are available as long as the projects meet with the requirements as presented.

Tax deduction schemes through SkatteFUNN have certain eligibility requirements:

- ▶ The company must be subject to taxation in Norway, although it is in a tax loss position. If so, the allowance is paid in cash.
- ▶ The projects must be in compliance with the requirements in Sections 16-40 and 16-41 of the Norwegian Taxation Act and related regulations.
- ▶ The projects must be purposeful, limited and beneficial to the company applying.

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Norway.

Role of governmental bodies in administering incentives

The SkatteFUNN tax credit scheme is administered by the Research Council of Norway in collaboration with the Ministry of Trade, Industries and Fisheries and Innovation Norway.

Cash grants, financial support, loans and warranties are administered by Innovation Norway, 51% of which is owned by the Ministry of Trade, Industries and Fisheries. Innovation Norway also manages funds from the Ministry of Local Government and Modernisation, the Ministry of Agriculture and Food, the Ministry of Foreign Affairs and the county governors.

Administrative requirements

The Research Council of Norway deals with the preapproval process for tax deduction schemes. The council also manages the submission of the annual reports, which has a deadline of 1 March annually, for tax deduction schemes. Innovation Norway manages the preapproval processes for cash grants, financial support, loans and warranties.

Statutory reference

- ▶ Statutory reference - Sections 16-40 and 16-41 in the Norwegian Taxation Act
- ▶ Year of statutory regime - 2002



Philippines

Philippines

This chapter is based on information current as of 15 March 2014.

Overview

The Philippine Government recognizes the economic benefits of undertaking R&D activities and grants incentives to encourage R&D investments in the Philippines. There are incentives to promote specific industries; however, there are also incentives enforced generally to benefit all persons engaged in R&D activities. R&D incentives in the Philippines have been in force since the early 1990s and are being reinvented to suit the needs of developing industries, including renewable energy.

In general, R&D expenditures may be treated as ordinary and necessary expenses deductible from gross income at 100% or as deferred expenses ratably distributed over a period of no less than 60 months, at the election of the taxpayer. Donations to research institutions or organizations accredited by the Philippine Council for NGO Certification, Inc. are exempt from donor's tax provided that no more than 30% of the donation shall be used for administrative expenses, and under certain conditions. Donations for R&D activities of the Government and accredited non-government organizations are also deductible against the donor's gross income subject to certain conditions.

Enterprises engaged in R&D activities that qualify for registration with the Board of Investments (BOI) may be entitled to an income tax holiday and other incentives. In addition, enterprises engaged in IT R&D activities may register with the Philippine Economic Zone Authority (PEZA) to enjoy income tax holiday or a special income tax regime and other incentives.

Currently, a fiscal incentives rationalization bill (Bill) is pending with Philippine Congress. The Bill aims to discontinue all tax incentives that are either misaligned with the Government's goals, or benefit industries that are already mature. Once enacted into law, the Bill may affect certain areas of incentives. The specific provisions of this bill, however, will still be deliberated upon before the bill is passed into law.

2014 tax rates

Top corporate income tax rate (national and local average)	30% ¹
Standard VAT rate	12%

¹ Minimum corporate income tax (MCIT) is 2% of gross income beginning on the fourth taxable year following start of operations, when such MCIT is greater than the tax computed at the regular rate of 30%.

EY contacts:

Emmanuel C. Alcantara
emmanuel.c.alcantara@ph.ey.com
+632 894 8143

Fidela T. Isip-Reyes
fidela.t.isip-reyes@ph.ey.com
+632 8948204

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D expense deductibility	Income tax holiday (ITH)*	Exemption from donor's tax
Types of incentives	<ul style="list-style-type: none"> ▶ Tax deductions 	<ul style="list-style-type: none"> ▶ Tax holiday for R&D enterprises 	<ul style="list-style-type: none"> ▶ Tax exemptions for donations to accredited research institutions

* Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D expense deductibility

Description of benefits

In general, R&D expenditures paid or incurred during a taxable year in connection with the taxpayer's trade, business or profession may be treated as ordinary and necessary expenses, which are not chargeable to a capital account. The entire amount is allowed as deduction from gross income during the taxable year in which the amount is paid or incurred. The taxpayer may also elect to claim the R&D expenditure as a deferred expense under certain circumstances. The election may be made for any taxable year but no later than the tax return deadline. The method elected shall be adhered to in computing the taxable income for the taxable year for which the election is made and for all subsequent taxable years unless, with the approval of the Commissioner, a change to a different method is authorized with respect to a part or all of such expenditure.

R&D expenditures treated as deferred expenses shall be permitted as a deduction ratably distributed over a period of no less than 60 months (beginning with the month in which the taxpayer first realizes benefits from such expenditures), at the election of the taxpayer.

R&D expenditures may be treated as deferred expenses if:

- ▶ They are paid or incurred in connection with the taxpayer's trade, business or profession.

- ▶ They are not treated as ordinary and necessary expense.
- ▶ They are chargeable to the capital account but not chargeable to property of a character that is subject to depreciation or depletion.

No deduction for R&D expenditures shall be permitted unless the taxpayer provides sufficient evidence, such as official receipts or other adequate records, showing the amount of the expense being deducted and the direct connection or relation of the expense being deducted to the development, management, operation and/or conduct of the trade, business or profession of the taxpayer. Further, the claimed deduction will be permitted only if the appropriate withholding tax due has been remitted to the Bureau of Internal Revenue (BIR).

Guidelines around incentive applications

The tax deduction applies to current investments. The R&D expense is included in the allowable deduction from gross income, claimed upon filing the Income Tax Return (BIR Form No. 1702) together with its attachments (i.e., schedule of itemized deductions). The Income Tax Return is filed on or before the 15th day of the fourth month following the close of the taxpayer's taxable year. The expense must be claimed in the year when paid or incurred.

ITH

Description of benefits

The 2013 Investment Priorities Plan (IPP) identifies R&D as a preferred area of investment that promotes the economic development of the Philippines. Enterprises engaged in R&D activities may register with the BOI as a non-pioneer project entitled to a four-year income tax holiday and other fiscal and non-fiscal incentives. ITH may only be claimed on income derived from the registered activity of the R&D enterprise. Income derived from all other sources shall be subject to regular income tax. Taxpayers are required to seek preapproval in obtaining the ITH.

Guidelines around incentive applications

ITH is applicable to current investments. The ITH is claimed by filing with the BIR the Certificate of Registration and ITH Entitlement issued by the BOI. It is filed with the taxpayer's Income Tax Return (BIR Form No. 1702) on or before the 15th day of the fourth month following the close of the taxpayer's taxable year.

Exemption from donor's tax

Description of benefits

In general, gifts in favor of an accredited research institution or organization shall be exempt from donor's tax provided that no more than 30% of the gift shall be used by the research institution or organization for administration purposes. Donations to an accredited non-government organization (NGO) organized and operated exclusively for scientific, research and educational purposes shall be deductible in full from the taxable business income of the donor depending on the donee's compliance with the level of administrative expense and utilization requirements. If the accredited NGO fails to comply with the level of administrative expense and utilization requirements, its donors shall be entitled only to limited deductions of an amount not in excess of 10% in the case of an individual, and 5% in the case of a corporation, of the donor's taxable income derived from trade, business or profession as computed without the benefit of Section 34 (H) of the Tax Code of 1997. Preapproval is required to obtain the incentive.

Guidelines around incentive applications

The tax exemption is claimed by filing with the BIR a Certificate of Donation stating that no more than 30% of the donation shall be used by the donee institution accredited by the Philippine Council for NGO Certification, Inc. (PCNC) for administration purposes. It must be filed with the donor's tax return (BIR Form No. 1800) within 30 days of the date the donation is made.

Eligibility requirements

The Tax Code does not provide for a specific definition of R&D allowable as a deduction or deferred expense. However, the following expenses shall not be deductible as R&D expenses:

- ▶ Any expenditure for the acquisition or improvement of land, or for the improvement of property to be used in connection with R&D of a character that is subject to depreciation and depletion
- ▶ Any expenditure paid or incurred for the purpose of ascertaining existence, location, extent or quality of any deposit of ore or other mineral, including oil or gas

R&D expenditures incurred in connection with the taxpayer's trade, business or profession are generally deductible from gross income. For resident foreign corporations, the R&D activity must relate to a trade or business conducted in the Philippines.

Deduction for R&D expenses may be claimed by companies incorporated in the Philippines or companies incorporated in another country that has a double tax treaty with the Philippines and who are carrying on business through a permanent establishment in the Philippines. Nonresident foreign corporations taxed based on their gross income may not claim a deduction.

R&D activities permitted to be registered under the IPP include the establishment of research/testing laboratories, Centers of Excellence, and technical vocational education and training institutions.

IP and jurisdictional requirements

There is no specific jurisdictional requirement on the location of IP.

Technology or innovation zones

There are several IT zones throughout the Philippines. An enterprise engaged in IT service activities such as IT R&D may register with the PEZA to enjoy the incentives under Republic Act No. 7916 or the Special Economic Zone Act of 1995, provided it physically locates inside a PEZA-registered IT park, building or special economic zone. Incentives available to these enterprises include an income tax holiday, after the ITH period the option to pay a special 5% tax on gross income in lieu of all national and local taxes, exemption from import duties and taxes on imported machinery and equipment and raw materials, an additional deduction equivalent to 50% of training expenses, and other incentives as determined by the PEZA Board.

Role of governmental bodies in administering incentives

The BIR may evaluate claims for R&D expense deductions and exemptions from donor's tax as part of a tax investigation or audit.

The granting of incentives to enterprises engaged in R&D activities is evaluated by the BOI or PEZA, depending on the specific case. However, the BIR may seek to evaluate the proper administration of the incentives in a tax audit investigation.

Administrative requirements

No preapproval from the tax authority is required to claim expense deductions representing R&D expenditure under the Tax Code, other than compliance with the substantiation requirement for business expenses, namely:

- ▶ The expense is directly attributable to the development, management, operation and/or conduct of the trade or business of the taxpayer.
- ▶ The expense was incurred during the taxable year.
- ▶ The expense is substantiated with sufficient evidence, such as official receipts or other adequate records showing the amount of the expense being deducted and the direct connection or relation of the expense being deducted to the development, management, operation and/or conduct of the taxpayer's trade, business or profession of the taxpayer.
- ▶ The withholding tax due on the expense must be paid.

Enterprises engaged in R&D activities covered by the IPP must first apply for endorsement by the Department of Science and Technology or other concerned agency and then apply for registration with either the BOI or PEZA. For technical vocational education and training institutions, the curriculum must first be approved by either the Technical Education and Skills Development Authority for training courses or the Commission on Higher Education for degree courses or other concerned Government agencies/authority, and it must be endorsed by the appropriate industry association. The registered education, training or learning institutions must provide training laboratories and equipment, if applicable.

For BOI registration, the application for registration shall be based on the IPP listing. However, the extent of entitlement to incentives shall be based on the project's net value added, job generation, multiplier effect and measured capacity, subject to BOI evaluation. A branch of a foreign corporation may not register with the BOI. In general, the equity of the project applied for registration must be at least 25% of the project cost. If qualified, the BOI shall issue a Certificate of Entitlement to the ITH incentive to be presented by the registered enterprise to the BIR upon filing its income tax return. The Certificate of Entitlement is valid for the duration of the ITH period granted.

For PEZA registration, the R&D enterprise may register as an Ecozone Export or IT Enterprise, provided its services are generally rendered to foreign clients. A PEZA enterprise must locate in a PEZA zone. Branches of foreign corporations may register with the PEZA. If qualified, the PEZA will issue a certification confirming the entitlement to the ITH incentive, and it will be valid for the duration of the ITH period.

For exemption from donor's tax, Section 13(C) of Revenue Regulations No. 02-03 states that to be exempt from donor's tax and to claim full deduction of the donation given to qualified donee institutions duly accredited by the Philippine Council for NGO Certification, Inc. (PCNC), the donor engaged in business shall give a notice of donation on every donation worth at least PHP50,000 to the Revenue District Office that has jurisdiction over the place of business within 30 days after receipt of the qualified donee institution's duly issued Certificate of Donation. The certificate shall be attached to the said Notice of Donation, stating that no more than 30% of the donation/gifts for the taxable year shall be used by such qualified donee institution for administration purposes.

Statutory reference

Deduction from gross income

- ▶ Statutory reference: Sec. 34 (I) of the National Internal Revenue Code of 1997
- ▶ Year of statutory regime: 1997

Exemption from donor's tax and contribution expense deductibility

- ▶ Statutory reference: Sec. 101(A)(3), Sec. 101(B)(2) and Sec. 34(H)(2)(C) of the National Internal Revenue Code of 1997
- ▶ Year of statutory regime: 1997

ITH

- ▶ Statutory reference: 2013 Investment Priorities Plan, Executive Order No. 226 (or the Omnibus Investment Code of the Philippines), Republic Act No. 7916 (or the Special Economic Zone Act), as amended, and Guidelines for the Registration of Information Technology (IT) Enterprises and the Establishment and Operation of IT Parks/Buildings (2000)
- ▶ Year of statutory regime: 2000/2013



Poland

Poland

This chapter is based on information current as of 15 March 2014.

EY contact:

Pawel Tynel
pawel.tynel@pl.ey.com
+48 12 424 3226

Overview

The R&D incentives system in Poland provides for tax incentives and cash grants (direct grants). The National Research and Development Center is responsible for implementation of several measures dedicated to support R&D projects in specific areas and industries.

The R&D incentives regime is still under development in Poland, however, positive changes are being observed both in terms of direct grants and tax incentives trying to make the Polish system dedicated to support R&D more competitive and attractive for entrepreneurs. An efficient system of tax reliefs has not yet been adopted; however, various cash grants schemes are available to support R&D projects conducted in cooperation between entrepreneurs and research units.

In terms of tax reliefs, currently it is possible to claim extra deductions on costs borne by the taxpayer acquiring new technology but it applies only to intangible assets. As a consequence, this particular incentive is not very popular and therefore is not an efficient tool to stimulate R&D activity conducted by entrepreneurs in Poland. Unfortunately it is not possible to claim any other extra deductions connected with costs identified and classified as R&D, especially costs of tangible assets, material, and wages connected with R&D activities. Extra deductions are possible if the research and development center (RDC) status is granted to the entity engaged in the sale of R&D works but this is available only if a relatively high share of revenues is generated through the sale of R&D works.

Currently, tax exemptions, tax deductions, and cash grants are available for eligible R&D activities in Poland.

2014 tax rates

Top corporate income tax rate (national and local average)	19% ¹
Standard VAT rate	23% ²

¹ Polish CIT Act (O.J. 2011, No. 74, pos. 397 with further amendments).

² Polish VAT Act (O.J. 2011, No. 177, pos. 1054 with further amendments).

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Incentives for special economic zones (SEZs)	Multi-Annual Support Program (MASP)*	Research and Development Center (RDC) status	Deduction for new technology expenses	Grants from EU funds
Types of incentives	▸ Tax exemption	▸ Cash grant	▸ Tax deduction	▸ Tax deduction	▸ Cash grant/loan

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Incentives for SEZs

(Specjalne strefy ekonomiczne)

Description of benefits

The SEZs are part of a Polish territory set up for a specific period of time where companies' operations are governed by specific rules set out in the Act on Special Economic Zones of 20 October 1994.³ There are currently 14 SEZs in Poland, and CIT exemption is granted on the basis of a permit for running a business in the SEZs which is issued by the Ministry of Economy. The amount of CIT exemption can be utilized by the investor till the end of the SEZ's existence (i.e., up to 2026) in relation to the income generated on the business activities specified in the permit. The maximum value of state aid granted for an investment project may amount to 30% to 50% (depending on the location)⁴ of the eligible investment costs or two-year employment costs. Taxpayers must obtain preapproval in order to obtain the SEZ incentive, which is negotiated on a case by case basis.

Guidelines around incentive applications

The incentive is applicable for future investments. Tax relief is disclosed in the CIT return (form CIT-8), which must be submitted by 31 March each year. For relief from personal income taxes, form PIT-36 must be submitted by 30 April. Applicable project should be commenced after the SEZ permit is given.

³ Journal of Laws of 2007, no. 42, item 274, unified text with further amendments.

⁴ From 1 July 2014 to 2020, the maximum level of the aid will amount to 10%-50% of the eligible cost depending on the period and project location.

MASP

(Wieloletni Program Wsparcia)

Description of benefits

The Government provides cash grants through MASP. MASP is designated for large investments that are considered crucial to the Polish economy and that depend on receiving grants from the state budget in order to be implemented in Poland. Support may be granted, inter alia, to entrepreneurs planning to create an R&D center. The level of support is based on newly created jobs, and in general, it ranges from PLN3,200 to PLN15,600 per job (about US\$1,000 to US\$4,900). The period of support cannot exceed five years. Taxpayers are required to seek preapproval to obtain these cash grants.

Guidelines around incentive applications

The cash grants are applicable for future investments. The grants are paid in accordance with a schedule agreed with the Ministry of Economy. Applicable projects should be commenced after the application is submitted to the Polish Information and Foreign Investment Agency (PAIIIZ) and the intent letter confirming that a project generally qualifies for a cash grant is issued to a beneficiary.

RDC status

(Centrum badawczo-rozwojowe)

Description of benefits

The Ministry of Economy may grant a tax deduction for entrepreneurs who carry out R&D activities. Through the incentive, a maximum of 20% of monthly revenues can be allocated to the fund (innovation fund) and recognized as tax deductible for CIT purposes. To create the fund, entity's resources must cover expenses linked with their own R&D activity. Taxpayers are required to seek preapproval to obtain the incentive.

Guidelines around incentive applications

The incentive is applicable for future investments. Additional tax deductible costs are disclosed in the CIT/PIT tax return and should be submitted by 31 March (for CIT) or 30 April (for PIT) each year.

Deduction for new technology expenses

(Ulga na nowe technologie)

Description of benefits

The deduction allows for the partial recovery of expenses already borne or being borne by a taxpayer acquiring new technologies. The deduction is calculated with reference to the amount of expenditures incurred for the acquisition of new technology (included in the initial value for tax amortization purposes) in the tax year in which the new technology was entered into the records of fixed assets and intangible assets or in the year after (not refunded to the taxpayer in any form). Prepayments in the year preceding the year in which the taxpayer entered the new technology into the records may also qualify.

With the incentive, up to 50% of new technology expenses may be deducted directly from the tax base. Taking into account the 19% CIT rate, effective financial savings may result in as much as 9.5% of eligible expenses. If the enhanced deduction exceeds the company's tax base for that given year, the excess can be carried forward for three consecutive years after a year in which new technology is disclosed in the intangible assets record.

Guidelines around incentive applications

The incentive is applicable for current investments. In addition, the deduction can be applicable retroactively up to five years. Claims for incentive are made through the CIT return. The return should be submitted by 31 March (for CIT) or 30 April (for PIT) each year.

Grants from EU funds

(Wsparcie z funduszy Unii Europejskiej)

Description of benefits

Following the new EU's Financial Framework 2014-20, Poland is preparing new operational programs (with a total budget of about €82.5 billion) to provide support for various types of projects. A significant part of the budget will be made available to R&D projects carried out by companies, scientific bodies, consortia of scientific and business entities, etc.

The funds will be available in 2014, and the operational programs are expected to start no earlier than the fourth quarter of 2014. Support will be granted according to the EU's rules on support for research and development projects. The basic maximum levels of support are expected to be as follows:

- ▶ 100% of the eligible costs for fundamental research
- ▶ 50% of the eligible costs for industrial research
- ▶ 25% of the eligible costs for experimental development
- ▶ 50% of the eligible costs for feasibility studies

Guidelines around incentive applications

The support is expected to be applicable to future investments. The grants are expected to be paid in accordance with a schedule agreed upon between the aid beneficiary and the institution responsible for granting support.

Eligibility requirements

Incentives for SEZs and MASP

In principle, the following capital expenditures may be treated as eligible expenses:

- ▶ Purchase of land (with some limitations)
- ▶ Purchase of construction works and materials
- ▶ Purchase of fixed and intangible assets
- ▶ Lease of land and buildings

Main entry conditions for MASP are as follows:

- ▶ New investment must be executed.
- ▶ Incurred investment costs must amount to at least PLN1.5 million and create at least 35 new jobs employing those with a higher education.

Main entry conditions for SEZ are as follows:

- ▶ New investment must be executed.
- ▶ The SEZ regulations cannot exclude the subject of the business activity that is planned to be performed in the SEZ.
- ▶ Incurred investment costs must amount to at least €100,000.
- ▶ SEZ authorities possess available land in a given location.

RDC status

Conditions that must be met in order to be granted RDC status are as follows:

- ▶ The status of R&D center may be granted to entities with net revenues generated on sales of goods and products and on financial operations worth at least €1.2 million per annum, where a minimum of 20% is generated on sales of their own R&D activity results (in the year prior to the year of filing the application).
- ▶ Additionally, there must not be any outstanding tax and social security liabilities.

Deduction for new technologies expenses

- ▶ Eligible expenses include expenses borne during the acquisition of new technology. "New technology" is defined as technological knowledge in the form of intangible assets specifically resulting from R&D projects that allow the taxpayer to develop new or to improve products or services that have not been used worldwide for more than five years (as certified by an independent Polish scientific institution).
- ▶ In general, new technologies for CIT exemption are defined as technological expertise/know-how in the form of intangibles (e.g., results of R&D, patents, utility models, industrial designs, trademarks, geographical indications and integrated circuit layouts, software license) that allow the taxpayer to create new or enhanced goods or services.
- ▶ The new technologies must fulfill the definition set out by the Polish CIT Act, and expert opinion must confirm the innovativeness of the technologies. The expert at hand may be directly requested by and issued to the taxpayer or requested by and issued to the supplier of the new technologies.
- ▶ The deduction is not available if a taxpayer carried out activity in an SEZ under a permit in the tax year or in the preceding year.
- ▶ The right to a deduction(s) is lost if one or more the following happens before three tax years elapse from the end of the tax year in which the new technology was entered into the records:
 - ▶ The taxpayer grants the right to the new technology in any form or any part to other entities.
 - ▶ Bankruptcy, including liquidation of assets, is declared or the taxpayer enters into liquidation.
 - ▶ The taxpayer receives a refund of the expenditures in any form.
- ▶ In such cases, taxpayers must increase their tax base and, in the case of incurring a loss, decrease such loss by the amount of the deduction.

Grants from EU funds

Support will be provided to eligible R&D activities and implementation of R&D results. The following categories of R&D-related expenses are expected to be treated as eligible for aid:

- ▶ Personnel costs
- ▶ Costs of instruments, equipment, buildings and land to the extent and for the period used for the project
- ▶ Cost of contractual research, technical knowledge and patents bought or licensed from outside sources
- ▶ Additional overheads and other operating expenses, including costs of materials, supplies and similar products, incurred directly as a result of the project

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones in Poland; however, tax incentives are provided through SEZs.

Role of governmental bodies in administering incentives

Incentives for SEZs

Exemption can be granted only on the basis of a permit for running business in the SEZs issued by the Ministry of Economy. The SEZ permit can typically be obtained within six to eight

weeks. Investors apply for the permit on an individual basis, as there is no formal call for applications involved. Should the investor choose to extend the SEZ to private land, a change in the Council of Ministers' resolution that specifies the SEZ borders is necessary. This procedure may last up to eight months. Following the extension, the investor can apply for the SEZ permit as described above.

MASP

In order to benefit from MASP, a company should begin negotiations with PAIiIZ and the Ministry of Economy. Support is granted in a form of a cash grant based on a bilateral agreement between the Ministry and the investor. Generally, MASP is an ad hoc aid and has to be notified to and approved by the European Commission.

RDC status

The Minister of Economy grants this support. Investors apply for RDC status on an individual basis as there is no formal call or invitation involved.

Deduction for new technology expenses

There is no formal call or invitation involved. The deduction is disclosed in the tax return by taxpayers. Tax authorities review the deduction if it is not applied correctly.

Administrative requirements

Incentives for SEZs

To monitor the status of meeting the conditions set in the SEZ permit, the company must submit reports (including information on progress in achieving the level of eligible costs and level of new jobs created in accordance with a SEZ permit) to SEZ authorities (Limited Company or Stock Exchange Company, which is responsible for governing a particular Special Economic Zone) in due time, presenting the progress of the investment (level of employment and eligible costs) in the SEZ. The period

of time covered by the report may differ among SEZs but can be established even up to the quarter.

MASP

By 30 October of each year in which the support is granted, the investor shall submit to the Ministry of Economy a material and financial report covering the period from the date of beginning the investment to the date of the report, including the prognosis of the performance of contractual obligations.

By 30 January of each year in which the support is granted, the investor shall submit to the Ministry of Economy a material and financial report for the previous year that covers the number of jobs created, maintained employment and the total amount of incurred eligible costs from the date of beginning the investment.

R&D status

Each year entrepreneurs must submit to the Ministry of Economy financial statements with auditor's reports, description of R&D activities for the past year, and statements confirming they have no outstanding tax or social security liabilities.

Deduction for new technology expenses

There are no specific reporting obligations apart from submitting an annual CIT return in which the deduction is disclosed.

Grants from EU funds

Support is expected to be available through calls for proposals, followed by application evaluation according to specified evaluation criteria.

Statutory reference

Incentives for SEZs

The operations of SEZs were recently extended up to 2026. General regulations regarding SEZs are in the Act on Special Economic Zones of 20 October 1994 (Journal of Laws of 2007, no. 42, item 274, unified text, with further amendments).

MASP

MASP regulations are introduced in "Programme of support of investments of considerable importance for Polish economy for years 2011 – 2020," adopted by the Council of Ministers on 5 July 2011. The current program will be implemented by 2020. On 13 August 2013 some regulatory changes were introduced to the program.



Portugal

Portugal

This chapter is based on information current as of 15 March 2014.

EY contact:

Francisco Hamilton Pereira
francisco.hamilton-pereira@pt.ey.com
+351 226 079 699

Overview

The Portuguese Government is very supportive of R&D activities, and the related incentives programs are being maintained and reinforced, even though the country is in recession and under economic assistance.

The Portuguese Government has introduced several R&D incentive programs in order to attract investors to the country and encourage companies to undertake R&D activities, such as technological and product innovation. Key programs in force are cash grants and R&D tax credits.

In addition, from 2014 onwards, only 50% of the gains obtained from the disposal or lease of patents and other industrial IP rights developed in Portugal will be taxed.

To stimulate R&D activities, Portugal has created a competitive package of cash grants and tax incentives, which may be applied simultaneously. It is possible to combine a nonrefundable cash grant with the R&D tax credit.

The cash grant program set for R&D projects is based on EU-funded incentives and is now being updated for 2014-20. However, this program will not suffer significant changes from the one previously offered. The program sets a cash grant of 25% to 75% of eligible R&D expenses. The cash grant is attributed by project and per call, and it encompasses a nonrefundable cash grant for up to €1 million. For cash grants over €1 million, the program attributes a nonrefundable cash grant up to €1 million and a refundable cash grant for the rest.

The R&D tax credit (SIFIDE) comprises a tax deduction to companies' tax burden of 32.5% of expenses incurred in that period plus an incremental rate of 50% of the increase in expenses incurred during that period compared to the average from the previous two fiscal years, up to a maximum benefit of €1.5 million.

These incentives have been in place for a significant time. SIFIDE is one of the most mature regimes, dating back to 1997. Cash grants were approved in 2007.

2014 tax rates

Top corporate income tax rate (federal and state average)	23% ¹
Standard VAT rate	23% ²

¹ In addition to the general rate, companies may also be subject to a municipal surcharge of up to 1.5% depending on the city in which the company is established. Companies are also subject to a state surcharge: 3% for taxable profit between €1.5 million and €7.5 million, 5% for taxable profit between €7.5 million and €35 million, and 7% for taxable profit above €35 million. Companies with a taxable profit below €1.5 million are not subject to the state surcharge. This is according to Article 87 of the Corporate Income Tax Code.

² Article 18 of the VAT Code.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D cash grant*	R&D tax credit (SIFIDE)	Portuguese non-habitual resident individuals regime	Deduction to income derived from patents and industrial IP developed in Portugal
Types of incentives	► Cash grants	► R&D tax credit	► Preferential personal income tax rate	► Patent related incentives

* Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

R&D cash grant

(Sistema de Incentivos à Investigação & Desenvolvimento Tecnológico)

Description of benefits

Portuguese legislation includes a financial incentive for research and technological development (R&TD) activities carried out by companies. This measure aims to promote the development of R&TD and demonstration projects at individual companies or consortia led by companies or business associations. The measure also aims to support company activities related to training and building capacity of internal R&TD competencies and monetization of R&TD results. The measure is designed to strengthen R&D in businesses, as well as the relationship between companies and knowledge centers, accelerating the transfer and use by companies of R&TD technologies, knowledge and results.

The conditions applicable to this incentive are:

- Minimum investment of €100,000
- Minimum incentive rate of 25%, which can be increased by 20% for small companies, 10% for medium companies or 25% for industrial investigation projects
- Nonrefundable grant for attributed incentive amounts below €1 million
- For attributed incentives above €1 million, a nonrefundable grant is attributed up to €1 million and for the exceeding amounts; 75% are granted as nonrefundable incentives, and the remaining 25% as a refundable loan.

Guidelines around incentive applications

The incentive is applicable to future investments. The deadlines are related to the application periods set by the grants managing authority.

R&D tax credit (SIFIDE)

(Sistema de Incentivos Fiscais à Investigação e Desenvolvimento Empresarial)

Description of benefits

SIFIDE is a tax incentive system for corporate R&D, and aims to provide companies in Portugal with a way to promote R&D, especially to boost productivity, economic development and the qualifications of the workforce. The SIFIDE tax credit consists of two components:

- A base rate of 32.5% applicable to R&D expenses of the current tax year
- An incremental rate of 50% on expenses incurred during the period, in comparison to the simple average of the two previous tax years, with a benefit limit of €1.5 million

For taxpayers that are SMEs according to Portuguese tax legislation, and who have not completed two fiscal years or benefited from this incremental rate, an increase of 15% to the base rate will apply. Unused tax credits may be carried back for one year and carried forward for eight years (six years prior to 2014), from 2014 onward. Tax credits that are not deductible due to insufficient tax payable in the period that they were

granted may be deferred up to the sixth immediate tax year. However, if the expenses occurred in 2014, it is possible to defer the deduction up to the eighth immediate tax year. Preapproval is required in order to obtain the incentive from ADI. SIFIDE is an incentive that should be maintained by the Government until at least 2020.

Guidelines around incentive applications

The incentive is applicable to current and retroactive investments. An R&D tax credit may be claimed through the annual corporate income tax return (Formulário Modelo 22 de IRC). The claim must be filed by 31 July of the year following the year in which the expenditure was incurred or by the end of the seventh month after the end of the company's fiscal period-end.

Portuguese non-habitual resident individuals regime

(Regime dos residentes não Habituais em Portugal)

Description of benefits

Portuguese tax legislation grants a favorable tax regime applicable to foreign employees engaged in R&D activities who relocate to Portugal.

This special tax regime is applicable to individuals who become tax residents in Portugal under the Portuguese domestic legislation in a given year, so long as they have not been considered and taxed as tax residents in Portugal in the previous five years.

The status of non-habitual resident is not automatically granted. Individuals should file a request to the Portuguese tax authorities.

According to the Portuguese Personal Income Tax (PIT) Code, an individual is deemed resident for tax purposes in Portugal if, among other conditions:

- ▶ He or she is physically present therein for more than 183 days in any calendar year, continuously or not.
- ▶ He or she has a home in Portugal on 31 December that appears to be his or her permanent residence.

Or

- ▶ The individual's spouse is tax resident in Portugal.

This special regime applies for a consecutive 10-year period and is nonrenewable.

The main feature of the Portuguese non-habitual resident individuals regime is that the employment and business or professional income arising from a Portuguese source and derived from "high added value" activities of a scientific, artistic or technical nature is taxed at a flat rate of 23.5% on net income. Stated differently, there is no income cap and the regime may be applied for a period of up to 10 years. From the moment in which the individual is taxed at a flat tax rate of 23.5% on net income, it is no longer possible to make deductions from taxable income. If the individual has other types of income taxed at a higher rate, it is possible to make a deduction related to the same income. Preapproval is required in order to obtain the incentive from Taxpayers Registration Services' Administration (DSRC).

Guidelines around incentive applications

In order to receive the incentive, the applicant should file the formal non-habitual tax residents form. The deadline for filling the application is 31 March of the year following the year in which the individual becomes a non-habitual resident.

Deduction from income derived from patents and industrial IP developed in Portugal

(Rendimentos de patentes e outros direitos de propriedade industrial)

Description of benefits

As from 1 January 2014, an IP regime is in force that provides for a 50% exclusion from the taxable basis in relation to income derived from contracts of transfer or of temporary use of patents and industrial designs or models.

In order to benefit from this regime, several conditions should be met, namely:

- ▶ The taxpayer self-develops the qualifying IP.
- ▶ IP is effectively used for activities carried out by the licensee.

- ▶ If licensee is a related company, the IP cannot be used to create deductible expenses for the taxpayer.
- ▶ The licensee is not domiciled in a tax haven.

This regime applies only to patents and industrial designs or models registered on or after 1 January 2014.

Guidelines around incentive applications

The incentive is applicable to investments made in 2014 and beyond. In order to receive the deduction, the IP should be registered, but no application is needed to benefit from this tax deduction. The deduction may be claimed through the annual corporate income tax return (Formulário Modelo 22 de IRC). The tax return must be submitted by the end of the fifth month after the end of the company's fiscal period.

Eligibility requirements

R&D cash grant

Eligible expenses include:

- ▶ Costs of specialized personnel of the promoter dedicated to R&TD, including contracted fellows
- ▶ Acquisition of patents to external sources or by those licensed
- ▶ Raw materials and components needed for the construction of pilot plants and for the construction of prototypes
- ▶ Acquisition of services from third parties, including technical, scientific and consulting assistance
- ▶ Acquisition of instruments and technical and scientific equipment indispensable to the project (only the amount with respect to the value of depreciation related to its period of use in the project is eligible)
- ▶ Expenses associated with the formulation of patent application, utility models and national designs
- ▶ Costs associated with the promotion and disclosure of the results of projects related, with process or product innovation that has commercial application
- ▶ Travel and stays abroad that result from needs strictly related to scientific and technological development of the project activities

- ▶ Costs associated with the certification of the system by Management of Research, Development and Innovation, such as consulting fees and training
- ▶ Expenses resulting from the intervention of chartered accountants (TOC) or statutory auditors (ROC)
- ▶ Allocation of indirect costs

Qualifying activities include:

- ▶ Industrial investigation - planned or critical investigation intended to the acquisition of new knowledge e-capacities for developing new products, processes or services or for introducing significant improvements in existing products, processes or services. It includes the creation of complex system components necessary to industrial investigation for validation of generic technology.
- ▶ Experimental development - acquisition, combination, conception and use of existing knowledge, scientific techniques and technologies for the elaboration of plans and devices or the conception of new or improved products, processes and services.

Qualifying industries include entities that are identified according to the Portuguese Classification of Economic Activities (CAE) as pertaining to industry, commerce, services, tourism, energy, transport and logistics, or construction.

In addition, the following eligibility is required to apply for the R&D cash grant:

- ▶ The company must be established in Portugal; some limitations may apply to non-convergence regions such as Lisbon or Algarve.
- ▶ The company must present a balanced economic situation by meeting a financial autonomy ratio higher than 20%.
- ▶ There must no tax or social security debts.
- ▶ The project should correspond to a minimum eligible expense of €100,000.
- ▶ The project will qualify for the cash grant for a maximum length of two years (the project can go on after this time limit, but the cash grant will not cover it).
- ▶ Companies must assign a technical manager to the project.
- ▶ The project must start after the submission of the application.

R&D tax credit (SIFIDE)

The eligible expenses include:

- ▶ The acquisition cost of new tangible fixed assets, with the exception of buildings and land, that are connected with R&D activities
- ▶ Expenses related to personnel directly involved in R&D activities (PhD costs are incremented at 20%)
- ▶ Expenses involving directors and professionals participating in the management of R&D institutions
- ▶ Operating expenses up to 55% of wages of personnel directly involved in R&D activities
- ▶ Costs regarding the subcontracting R&D activities from public entities or from entities recognized as possessing R&D capabilities
- ▶ Expenses incurred to raise capital for institutions that perform R&D and contributions to investment, private or public funds that are targeted to finance entities dedicated to R&D
- ▶ Costs regarding registry and maintenance of patents
- ▶ Costs associated with the acquisition of patents that are related to the development of R&D activities (only eligible for SMEs)
- ▶ Costs of R&D audits
- ▶ Expenses from demonstration actions that resulted from supported R&D projects

Qualifying activities include:

- ▶ Basic research
- ▶ Applied research
- ▶ Experimental development

Qualifying industries include entities that are engaged in agricultural, industrial, commercial or service-related activities as a core or supplementary business.

In addition, following eligibility is needed to apply for R&D tax credits (SIFIDE):

- ▶ Companies must be established in Portugal.
- ▶ Companies must have no debts to the tax authorities or social security.
- ▶ Indirect methods cannot determine taxable income.

Portuguese non-habitual resident individuals regime

Eligibility requirements for the Portuguese non-habitual resident individuals regime:

- ▶ The R&D employee is physically present in Portugal for more than 183 days in any calendar year, continuously or not.
- ▶ He/she has a home in Portugal on 31 December that appears to be his/her permanent residence.
- ▶ The individual's spouse is tax resident in Portugal.
- ▶ R&D employees must perform a "high value-added" activity for the purposes of applying for this regime. They include architects and engineers, artists, auditors and tax advisors, physicians, teachers, doctors, dentists, other professionals, board members on certain companies, and senior executive employees.

Deduction to income derived from patents and industrial IP developed in Portugal

In order to be eligible for the deduction, patents and industrial designs or models must be registered with the appropriate authorities.

IP and jurisdictional requirements

Effective date

Applies to assets related to qualifying IP and registered (e.g., on internally generated IP, IP acquired from a related party and/or IP acquired from a third party) after 1 January 2014.

Qualifying intellectual property

The qualifying IP includes:

- ▶ Patents
- ▶ Drawings or industrial models

Types of income

Income derived from the IP, such as royalties, compensations and capital gains.

Calculation of income

Only 50% of income contributes to the determination of taxable income. This income must be generated from the assignment or temporary use of patents, drawings and industrial designs subject to registration, including those resulting from its violation.

IP regime rate

From 2014 onward, corporate income derived from contracts related to the transfer or temporary use of property rights on patents and industrial designs will contribute to the determination of taxable profit in just half of its value.

Can work be performed outside the country?

The work must be performed in Portugal. It is possible to use the patents that are developed in Portugal abroad and benefit from the 50% exclusion of the gain. Additionally, the acquirer may benefit from depreciation and/or reduced rate of taxation on royalties arising from exploration.

Must the IP be registered/owned locally?

It is not a requirement to have local ownership. However, it will not be applied if the buyer is resident in a tax haven as defined by the Portuguese Government.

IP and jurisdiction requirements

From 2014 onward, corporate income derived from contracts related to the transfer or temporary use of property rights on patents and industrial designs will contribute to the determination of taxable profit in just half of its value.

To benefit from this regime, several conditions must be met, such as:

- ▶ The property rights must result from R&D performed or contracted by the taxpayer.
- ▶ The buyer must use the rights in an activity of commercial, industrial or agricultural nature.
- ▶ The use of rights by the purchaser does not materialize on goods or services that result in deductible expenses to the selling entity (or another entity that forms part of the same RETGS) if the purchaser is a related entity.
- ▶ The purchaser must not be resident in a tax haven (as defined by the Portuguese Government).
- ▶ Patents and industrial designs or models must be registered after 31 December 2013.
- ▶ Capital gains may benefit from the reinvestment regime.

Technology or innovation zones

There are no technology or innovation zones providing specific R&D incentives in Portugal.

Role of governmental bodies in administering incentives

The R&D tax credit (SIFIDE) operates on a self-assessment basis, through an application, and is administered by ADI (Agência da Inovação). The ADI determines whether the company's activities qualify.

The AICEP and IAPMEI are the two main Government management bodies that administer the cash grant funding schemes. These entities collect and decide on the application to the cash grant.

Administrative requirements

For the R&D cash grant, companies must present an application prior to the start of the R&D project.

For the R&D tax credit, companies must present an application each year, up to seven months after the end of their fiscal year.

The status of non-habitual resident is not automatically granted. Individuals should file a request to the Portuguese tax authorities.

Statutory reference

- Código Fiscal do Investimento, approved by the Decree-Law n.º 249/2009 and changed by the Decree-Law n.º 82/2013.



Romania

Romania

This chapter is based on information current as of 15 March 2014.

EY contacts:

Miruna Enache
miruna.enache@ro.ey.com
+40 21 402 41 35

Camelia Stanciu
camelia.stanciu@ro.ey.com
+40 21 402 84 77

Overview

Currently, there are two R&D incentive programs in Romania: Super deduction on qualifying R&D expenses and accelerated depreciation on qualifying R&D assets. The Romanian authorities have made public a normative act project (a legislative instrument) regarding the super deduction that will modify the norms for applying this incentive. The project includes, inter alia, provisions that will make conditions for applying the incentive less strict. Moreover, the rate of the additional deduction was increased in February 2013 from 20% to 50% of eligible expenses. The authorities wish to encourage R&D activities by extending the applicability of this incentive and increasing its effect.

For fiscal depreciation purposes, taxpayers subject to profits tax may opt to use the accelerated depreciation method for technological equipment, machinery, tools and installations, computers and peripherals, and patents. The Government is familiar with administering the accelerated depreciation provision as it has been available for a long time.

2014 tax rates

Top corporate income tax rate (national and local average)	16% ¹
Standard VAT rate	24% ²

¹ Per Art. 17 of the Fiscal Code.
² Per Art. 140 of the Fiscal Code.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Accelerated depreciation method	Additional deductions for eligible R&D expenses*
Types of incentives	▶ Accelerated depreciation on R&D assets	▶ Super deduction

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

Accelerated depreciation method

(Metoda amortizării accelerate)

Description of benefits

Under the accelerated depreciation method, a maximum of 50% of the fiscal value of the asset may be deducted during the first year of usage, while the rest of the asset's value would be depreciated over the remaining useful life. The accelerated depreciation applies to equipment used for R&D purposes.

Guidelines around incentive applications

The accelerated depreciation incentives applies to future investments. The accelerated depreciation method is claimed in the quarterly or annual CIT returns (i.e., Forms 100 and 101). The depreciation method should be chosen before the assets starts to be depreciated.

Additional deductions for eligible R&D expenses

(Deducere suplimentară pentru cheltuieli eligibile aferente activităților de cercetare-dezvoltare)

Description of benefits

By law, the super deduction can be applied only to expenses incurred in relation to applied research and technological development. Under the incentive, the taxpayer would benefit from an additional deduction for CIT purposes representing 50% of R&D expenses.

Guidelines around incentive applications

The super deduction is applicable for current and future investments. The super deduction is claimed in the quarterly or annual CIT returns (i.e., Forms 100 and 101). In general, the super deduction should be claimed upon the recognition of the R&D expenses.

Eligibility requirements

Accelerated depreciation method

The accelerated depreciation method can be applied in connection with technological equipment, machinery, tools and installations, computers and peripherals, and patents. There is no specific limitation on the activity in applying the incentive.

Additional deductions for eligible R&D expenses

For additional deductions, eligible expenses include the following:

- ▶ Depreciation expenses of new tangible fixed assets created or acquired by taxpayers that are used in R&D activities and related expenses regarding maintenance/repairs of such assets performed by third parties
- ▶ Expenses incurred with salaries of personnel directly involved in R&D activities
- ▶ Depreciation expenses of intangible assets acquired by taxpayers that were used in R&D activities
- ▶ Operating expenses, including costs of consumables, expenses for materials that are included in inventory, raw materials expenses, expenses with animals used in experiments, and similar products used in R&D activities
- ▶ Overhead expenses, which can be allocated directly or proportionally (considering an allocation key) to the results of an R&D activity

To benefit from additional deductions, R&D activities must relate to industrial or commercial activities performed by the taxpayer and should lead to results that the taxpayer can exploit.

Furthermore, R&D activities can be performed in Romania or in another EU or European Economic Area (EEA) Member State so long as a Romanian entity subject to profits tax can exploit the results of the R&D activities. No industry sectors are specifically excluded.

IP and jurisdictional requirements

Regarding the additional deduction, R&D activities can be performed in Romania or in another EU or EEA member state as long as a Romanian entity subject to profits tax can exploit the results of the R&D activities.

Technology or innovation zones

There are no technology or innovation zones related to R&D incentives in Romania.

Role of governmental bodies in administering incentives

Incentives are applied directly by relevant taxpayers. Appropriate application of these incentives by taxpayers is checked by the tax authorities during profits tax audits.

Administrative requirements

Additional deductions related to R&D expenses must be presented on a distinct row in the annual profits tax return and also separately in the Profits Tax Register. There is no specific administrative requirement for the accelerated depreciation method.

Statutory reference

- ▶ Accelerated depreciation method: Art. 24 of the Fiscal Code
- ▶ Additional deductions: Art. 19¹ of the Fiscal Code and the norms regarding the deductions for R&D expenses upon determination of taxable profit, approved via Order 2086/2010



Russia

Russia

This chapter is based on information current as of 15 March 2014.

EY contact:

Alexander Smirnov
alexander.smirnov@ru.ey.com
+7 495 755 98 48

Overview

Russia progressively develops the innovative sector via the use of internationally accepted leading practices and the President has declared a goal of gradually changing from a resource-based economy to one characterized as knowledge and technology-led.

In recent years, Russia has made significant progress in the development of its innovation base. R&D tax incentives now play an important role in stimulating investment in innovation and modernization of the Russian economy, being the key element of further economic growth.

In 2011 Russia set its innovation strategy for the period to 2020 as a basis of state policy in the areas of talent support, IP protection, administrative barriers reduction, provision of tax incentives, increase in demand for intellectual products, and R&D activity stimulation. Russia also managed to implement practical measures to support an increase in innovative activities. In particular, for a number of new state innovative institutions, funds were created to support investments in innovative companies.

Many of the current R&D incentives appeared starting from 2010 and related to innovation activity in the energy efficiency and energy savings. Current trends show that the Government gradually reduces direct support of R&D activities in favor of providing indirect stimulation by increasing the list of R&D incentives and reducing administrative barriers.

Current tax legislation provides the following group of investments and R&D incentives:

- ▶ Federal incentives provided by the Tax and Customs Codes
- ▶ Regional incentives provided by local legislation with respect to regional taxes or as part of federal tax payable to the regional budgets
- ▶ Innovative special economic zones with favorable tax regimes for R&D activities

2014 tax rates

Top corporate income tax rate (federal and state average)	20% ¹
Standard VAT rate	18%

¹ The Tax Code of Russian Federation with amendments as of September 2013. The rate consists of 2% to the federal budget, 18% to the state budget.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Super deduction*	Investment tax credit	Reduced profits tax and assets tax rates*	Reduced rate of social insurance contributions	Accelerated depreciation on the R&D assets	VAT exemptions	Tax holiday
Types of incentives	▸ Super deduction	▸ Tax credits	▸ Reduced tax rates	▸ Reduced social security contributions	▸ Accelerated depreciation on qualifying R&D assets	▸ VAT exemptions	▸ Tax holiday

*Although not based upon scientific analysis, EY clients report that these incentives deliver more beneficial results to investors.

Super deduction

(Вычет расходов с коэффициентом 1.5)

Description of benefits

Benefits include a 150% super deduction of eligible R&D expenses incurred for activities in accordance with the Government-approved list. In general, unutilized expenses may be carried forward over 10 years.

Guidelines around incentive applications

Super deduction of eligible R&D expenses is claimed in the profits tax return in the period when R&D research is completed or when a stage of research is completed. Together with the filing of the annual profits tax return (which is required to be filed on 28 March of the year following the reporting year), a taxpayer shall provide the tax authorities with a report on R&D research.

Investment tax credit

(Инвестиционный налоговый кредит (отсрочка, рассрочка))

Description of benefits

The investment tax credit is the change in the payment due date of a tax, which allows a taxpayer to reduce tax payments for a certain period with subsequent payment of tax credit and related interest. The investment tax credit may be provided for one to five years and shall not exceed 50% of a taxpayer's total payment for the period. In addition, the investment tax credit shall not exceed 100% of the acquisition value of fixed assets that are to be used in R&D activity or can be negotiated with the authorities.

Guidelines around incentive applications

The investment credit is applicable to current investments. In order to claim the investment credit, a taxpayer is required to submit a request to the tax authorities to provide an investment tax credit. The tax authorities have 30 days to make a decision.

Reduced profits tax and assets tax rates

(Пониженная налоговая ставка по налогу на прибыль и налогу на имущество)

Description of benefits

Regional governments may provide a reduced rate of profits tax from 20% to 15.5% and assets tax rate from 2.2% to 1.1% or 0% for taxpayers engaged in certain types of the R&D activities. Generally, unutilized expenses may be carried forward for 10 years.

Guidelines around incentive applications

The incentive is applicable to current investments. In order to claim the incentive, larger taxpayers usually negotiate directly with the local governments. Small and medium businesses declare a reduced tax rate in their tax return and provide documentation supporting eligibility for the reduced rate to the tax authorities upon their request.

Reduced rate of social insurance contributions

(Пониженный тариф страховых взносов)

Description of benefits

Reduced rates of social security contributions are available to IT companies at a rate of 14%, compared with 30% for regular business.

Guidelines around incentive applications

The incentive is applicable to current investments. The incentives are declared in the social security contribution computation with documentation supporting the eligibility for the incentive requested by the authorities.

Accelerated depreciation on the R&D assets

(Применение коэффициента ускоренной амортизации)

Description of benefits

Application of a special coefficient, but no higher than three, to the basic depreciation norm in relation to amortizable fixed assets that are used only in carrying out scientific and technical activities. Generally, the expenses may be carried forward for 10 years.

Guidelines around incentive applications

Accelerated depreciation on eligible R&D assets is claimed in the profits tax return for current investments. Taxpayers must retain all supporting documentation and tax registers and be ready to provide them to the tax authorities.

VAT exemptions

(Освобождение от налогообложения)

Description of benefits

VAT exemption is available for certain R&D production activity.

Guidelines around incentive applications

The incentive is claimed in the VAT return for current investments. Taxpayers must retain all supporting documentation and tax registers and be ready to provide them to the tax authorities.

Tax holiday

(Налоговые каникулы)

Description of benefits

A tax holiday is provided by regional legislation for fixed assets that are used in R&D activity.

Guidelines around incentive applications

The incentive is claimed in the assets tax return for current investments. Taxpayers must retain all supporting documentation and tax registers and be ready to provide them to the tax authorities.

Eligibility requirements

R&D expenditures must relate to the development of new products, the improvement of production processes or the development of new services. Qualifying costs include labor costs, R&D contractor expenses, and depreciation of equipment used for R&D and certain other expenses (with limitations). For reduced profits tax and assets tax rates and tax holiday, eligibility conditions are set out in regional legislation. Regarding the VAT exemption, the incentives are provided for the following operations:

- ▶ R&D activity on the development of technologies for production of new goods and provision of new services
- ▶ R&D activities financed from budgets and special scientific funds
- ▶ Transfer of IP rights for software, databases, inventories and know-how, including transfer under license agreements
- ▶ Import of technologic equipment (whose analogues are not produced in Russia) included in the list approved by Government Decree No. 372.

IP and jurisdictional requirements

There are no jurisdictional requirements on the location of IP.

Technology or innovation zones

Currently, Special Economic Technology Innovative Zones and the Skolkovo Innovation Center are available in Russia.

Special Economic Technology Innovative Zones

There are four Special Economic Technology Innovative Zones (SEZ TIPs): Zelenograd (Moscow), Dubna (Moscow Region), St. Petersburg and Tomsk. To become a resident of an SEZ TIPs, the taxpayer must:

- ▶ Be registered with the territory of SEZ
- ▶ Conclude a special agreement with the managing bodies of SEZ on the performance of eligible technological and innovation activities

For SEZ TIPs purposes, technological and innovation activities include the creation of software products, data collection systems and related services.

Skolkovo Innovation Center

The Skolkovo Innovation Center is a Russian Government initiative designed to encourage innovation and technical research within Russia. A Russian legal entity that is approved as a Skolkovo Innovation Center resident can be entitled to receive different tax incentives, cash grants, tax holidays and tax exemptions for the purpose of exercising specific R&D activities. Under Skolkovo Law No. 244-FZ, eligibility requires that the R&D activities include, but are not limited to, R&D of strategic computer technologies and software for commercial purposes. The status of the project participant is provided for a maximum of 10 years from the date of registration.

A Russian company may become a participant of the Skolkovo Innovation Center provided that:

- ▶ It is engaged only in R&D activities in accordance with foundation documents
- ▶ Executive management of the company is permanently based in the territory of the Skolkovo Innovation Center

Under the initiative, those companies' employees who would become residents of the territory (three to four miles southwest of Moscow) are entitled to approximately US\$150,000 to millions of dollars' worth of grant funds. Regional support in the form of exemptions is based on legislation.

R&D incentives provided by SEZ TIPs and Skolkovo Innovation Center include VAT tax incentives, profit tax incentives, 150% super deduction and reduced social security contributions.

	Criteria	General corporate tax rules	SEZ TIPs	Skolkovo Innovation Center
1	Income tax	▶ 20%	▶ 13.5%, with varying periods of application of the reduced rate across SEZ TIPs	▶ Income tax exemption (if annual proceeds do not exceed RUB1 billion) ▶ Zero tax rate (if accumulated profits do not exceed RUB300 million from the beginning of the year when the amount of proceeds exceeded RUB1 billion)
2	VAT	▶ 18% (10%, 0% for certain operations)	▶ N/A	▶ Exemption from VAT obligations (if accumulated profits do not exceed RUB300 million from the beginning of the year when the amount of proceeds exceeded RUB1 billion)
3	Property tax	▶ Not exceeding 2.2%	▶ Tax exemption ▶ Generally applied for five years to the assets in SEZ used in technological and innovation activities (for 10 years in Tomsk)	▶ Tax exemption (application criteria the same as for VAT)
4	Social contributions	▶ 30%	▶ 14%	▶ 14% (same application criteria as VAT)
5	RF Pension Fund	▶ 22%	▶ 8%	▶ 14%
6	Social Insurance Fund	▶ 2.9%	▶ 2%	▶ 0%
7	Federal Compulsory Medical Insurance Fund	▶ 5.1%	▶ 4%	▶ 0%

Role of governmental bodies in administering incentives

Certain tax incentives have subjective criteria for the application and may be withdrawn by the Government without any changes in law. For example, the list of R&D expenses that qualify for the increased deduction is established by Governmental decrees without guarantee of their long-term availability. Regional tax incentives have certain subjective criteria such as a contribution to the social development of the region, which may be difficult to prove.

Administrative requirements

Corporations are required to qualify and be advanced in their R&D planning in order to feel comfortable in claiming certain deductions. Supporting documentation is also required. Such documentation may be subject to evaluation by research

institutes engaged in specific fields of R&D. Tax inspection offices deal with the preapproval and annual compliance procedures.

Statutory reference

- ▶ Tax Code of the Russian Federation Part One and Part Two
- ▶ Federal law No 244-FZ Concerning Innovative Center Skolkovo of 28 September 2010
- ▶ Federal law No 212-FZ Concerning Insurance contributions to the Pension Fund, Social Security Fund, Medical Insurance Fund of 24 July 2009
- ▶ Federal law No. 116-FZ Concerning Special economic zones in the Russian Federation of 22 July 2005



Singapore

Singapore

This chapter is based on information current as of 15 March 2014.

EY contact:

Bin Eng Tan

bin-eng.tan@sg.ey.com

+65 6309 8738

Overview

Since 2008, the Government has strengthened its focus on R&D and has continually revisited the available R&D programs and support mechanisms. These R&D incentives are used as a key policy enabler to boost productivity and also recognize the significant contribution that R&D plays in building globally competitive companies.

Discretionary R&D incentives in Singapore have been in existence for over 10 years and, accordingly, are relatively mature in terms of the underlying policy and drivers. For statutory incentives, these have only been around for four years and are still maturing.

Currently, the Government offers a tax deduction of up to 400% (subject to relevant caps) that is available for qualifying R&D expenditure on R&D activities performed in Singapore or abroad. Partial Government grants are also available for approved R&D projects.

2014 tax rates

Top corporate income tax rate
(national and local average)

17%¹

Standard VAT rate

7%²

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

¹ 2013 Worldwide Corporate Tax Guide, EYGM Limited, July 2013.

² Ibid.

Incentives available

Names of incentives	Enhanced R&D deduction	Research Incentive Scheme for Companies (RISC)	Double tax deduction for R&D expenses
Types of incentives	▸ Super deduction	▸ Cash grants	▸ Super deduction

Enhanced R&D deduction

Description of benefits

As a primary R&D incentive in Singapore, the enhanced R&D deduction provides for a 150% enhanced tax deduction on qualifying R&D expenditure in Singapore. The R&D tax deduction is further enhanced from 150% to 400% for the first S\$400,000 of eligible R&D expenditure for years of assessment 2011 to 2015. Eligible businesses also have the option to convert up to S\$100,000 of their qualifying expenditures into cash at a conversion rate of 60% for years of assessment 2013 to 2015. Unutilized losses may be carried forward indefinitely, subject to satisfaction of the shareholding test.

It was proposed in the 2014 Singapore Budget (delivered in February 2014) that the 150% enhanced R&D deduction on qualifying R&D expenditures in Singapore will be extended to the 2025 year of assessment. For the 2016 to 2018 years of assessment, the R&D deduction will be further enhanced from 150% to 400% for the first S\$400,000 of eligible R&D expenditures. Additionally, for 2015 to 2018 years of assessment, SMEs will enjoy a 400% enhanced tax deduction on an additional S\$200,000 of qualifying expenditure. The proposed changes are expected to be legislated later in 2014.

Guidelines around incentive applications

The enhanced R&D deduction is applicable to current investments. As the incentive is statutory-based, the claims follow the corporate tax filing timeline. The enhanced tax deduction is claimed against taxpayers' taxable profits in the year the expenditure was incurred. Corporate tax returns are filed on a preceding-financial-year basis.

RISC

Description of benefits

The RISC is a Government cash grant co-fund to encourage and assist companies in setting up R&D centers in Singapore and develop their in-house R&D capabilities. The support is typically 30% or 50% of total qualifying cost, such as manpower-related costs, equipment and materials, professional services and IP rights. The grants have been provided selectively to large projects in certain strategic technology areas identified by the Singapore Government. However, projects awarded the cash grant are not announced nor made public. Taxpayers are required to seek preapproval in order to obtain the incentive.

Guidelines around incentive applications

RISC is applicable for future investments, and typically, approval is granted only on projects that have not yet commenced.

Double tax deduction for R&D expenses

Description of benefits

The incentive provides a 200% tax deduction on R&D expenditure incurred on approved projects. Under the current law, no R&D projects may be approved for this incentive after 31 March 2015. In the 2014 Singapore Budget, it was proposed that this scheme be extended to 31 March 2020. The proposed change is expected to be legislated later in 2014. Unutilized losses can be carried forward indefinitely subject to the satisfaction of the shareholding test. Taxpayers are required to seek Government preapproval in order to obtain the incentive.

Guidelines around incentive applications

The double tax deduction for R&D expenses is applicable to future investments, and typically, approval is granted only on projects that have not yet commenced.

Eligibility requirements

Enhanced R&D deduction

R&D is defined as any systematic, investigative and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce or processes (with specified exclusions). Activities that directly support core R&D activities may also qualify.

Eligible expenditure includes staff costs, consumables and contracted R&D expenditure, net of Government grants or subsidies. Where the R&D work is contracted to an R&D organization or is performed under an R&D cost-sharing agreement (CSA) and a breakdown of the expenditure is not available, the eligible R&D expenditure is deemed to be 60% of fees payable to the R&D organization or under the CSA.

Any business carrying on qualifying R&D projects in Singapore is eligible for the enhanced tax deduction. No industry sectors are specifically excluded. However, research in the social sciences or the humanities cannot be claimed unless they are activities that support a qualifying project.

For the 400% enhanced tax deduction on the additional S\$200,000 of qualifying expenditures for SMEs, an entity is regarded as a qualifying SME if (a) its annual turnover is not more than S\$100million or (b) its employment size is not more than 200 workers. This criterion will be applied at the group level if the entity is part of a group.

RISC

There is no specific definition of R&D. Eligible expenditure typically includes manpower-related costs, equipment and materials, professional services and intellectual property rights. There is no eligibility restriction on specific industries; however, as it is a discretionary incentive, grants are provided selectively to large projects in certain strategic technology areas identified by the Singapore Government.

Double tax deduction for R&D expenses

The definition of R&D is the same as that provided for the enhanced R&D deductions. Eligible expenditure may cover various types of expenditure (other than capital costs), subject to agreement by the relevant authority. This may include staff costs, consumables, overheads, testing costs, professional services and more. No industry is specifically excluded. However, as it is a discretionary incentive, grants are provided selectively to large projects in certain strategic technology areas identified by the Singapore Government.

IP and jurisdictional requirements

For the enhanced R&D deduction, qualifying R&D activities are not restricted to those conducted in Singapore. However, only those activities performed in Singapore are eligible for the 150% enhanced tax deduction. Qualifying R&D expenditure associated with overseas activities is only eligible for the 400% enhanced tax deduction (capped at S\$400,000 per year of assessment). For RISC and double tax deduction for R&D expenses, there are no specific IP requirements.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Singapore.

Role of governmental bodies in administering incentives

The expenditure claimed is processed by the Singapore tax authorities, i.e., the Inland Revenue Authority of Singapore (IRAS), for the enhanced R&D deduction. The IRAS also monitors the activities that are claimed to ensure compliance with the R&D enhanced tax deduction regime.

The Singapore Economic Development Board (EDB) administers discretionary incentives, including cash grants and the 200% tax deduction.

Administrative requirements

Companies are not required to seek Government preapproval for the R&D enhanced tax deduction. For the other discretionary tax incentives, approval must be granted by the EDB. To be eligible for the enhanced tax deduction, a company must submit the claim in its income tax return and tax computation with the completed R&D claim form, by the annual filing deadline of 30 November. Where a company incurs at least S\$150,000 of R&D expenditure (net of Government grants and subsidies), it is required to provide a detailed description of the R&D project undertaken, based on prescribed guidelines. Where a company wishes to claim more than 60% of the sum payable to an R&D organization or under a CSA as eligible R&D expenditure, the claimant must submit to the IRAS copies of invoices issued by the R&D organization detailing a breakdown of the expenditure items.

For the R&D cash grant, companies must submit documentation in relation to making claims and reporting on the progress of the project. Claims may be made on a quarterly basis using the prescribed format as provided by the relevant authority once the R&D cash grant has been awarded. Companies are also required to submit a yearly progress report and a final report at the end of the project.

For the double tax deduction for R&D expenses, companies must, in the first year of assessment when a new tax incentive commences, complete and submit with their income tax return, the Evaluation Checklist for a Company Awarded with Tax Incentives(s) form. For subsequent years of assessment, the completed checklists are required to be submitted only when requested by the IRAS.

For certification, the EDB must grant approval for the discretionary tax incentives. For discretionary incentives, in addition to the negotiation process, the relevant application forms must be completed. These forms are not publically available but will be provided by the EDB during the negotiation process.

Statutory reference

- ▶ Income Tax Act, Section 14D, Section 14DA Section 14E and Section 15
- ▶ In respect of Section 14DA, the enhanced deduction is available for the years of assessment 2011 to 2015. The proposed extension of the enhanced deduction and the double tax deduction for R&D expenses is expected to be legislated in 2014.



Slovak Republic

Slovak Republic

This chapter is based on information current as of 15 March 2014.

EY contact:

František Cséfalvay

frantisek.csefalvay@sk.ey.com

+421 2 333 39 148

Overview

Slovakia has long been overlooked as a location for performing R&D activities in the EU due to undercapitalization of the R&D sector. Nevertheless, foreign direct investment has accelerated the pace of innovation in industry and services in Slovakia. Moreover, the Slovak Government has strengthened its focus on R&D in recent years, offering targeted stimuli to support R&D activities with the aim of supporting projects with high added value in the area of the development of a knowledge-based economy.

As of 2009, a unified system to stimulate R&D was introduced through Act No. 185/2009 Coll. on Research and Development Incentives, setting rules and procedures for providing incentives for R&D activities carried out by business entities (micro, small, midsize and large enterprises) in all industries. According to the Act, the eligible costs of R&D projects that qualify for incentives can be supported either by cash grants from the state budget or income tax relief (via a tax credit). The Ministry of Education (for cash grants) and Ministry of Finance (for tax credits) are responsible for administering and providing the incentives.

Besides the direct stimuli on R&D, an enterprise may apply for stimuli from the state budget under general investment aid, upon which the establishment or expansion of a center for innovation and technology may be supported by various types of incentives including cash grants, tax credits, transfer of immovable assets/exchange or replacement of immovable assets at a price lower than the market price.

2014 tax rates

Top corporate income tax rate (national and local average)	22%
Standard VAT rate	20% ¹

¹ Slovak VAT Act (§ 27 (1) as temporarily amended by § 85j of Act No. 222/2004 Coll. on VAT, as amended)

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input checked="" type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D subsidy	R&D income tax relief	Investment aid for technological centers*	Subsidy on scientific and technical services
Types of incentives	<ul style="list-style-type: none"> ▶ Cash grants 	<ul style="list-style-type: none"> ▶ Tax credit 	<ul style="list-style-type: none"> ▶ Cash grants ▶ Tax credits ▶ Transfer of immovable property or exchange of immovable property at a price lower than market price 	<ul style="list-style-type: none"> ▶ Cash grants

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

R&D subsidy

(Dotácia na výskum a vývoj)

Description of benefits

The R&D subsidy is designed to:

- ▶ Support basic research, applied research and experimental development
- ▶ Develop studies of project feasibility
- ▶ Ensure the protection of industrial property
- ▶ Temporarily assign highly qualified staff to R&D activities

The R&D subsidy is provided upon successful written appeal to a particular funding program, each of which has a predefined annual budget. In addition, the funding amounts vary by the project type. The maximum amount of grants ranges from 25% to 100% of eligible costs depending on the type of R&D project and size of the enterprise. The maximum value is further limited by a fixed maximum amount of grant. Companies are required to seek approval from the Ministry of Education in order to obtain the R&D development subsidy.

Guidelines around incentive applications

The R&D subsidy is applicable to future investments. Work on the project should not be commenced prior to submitting the incentive application to the Ministry of Education. Maximal duration of basic/applied research and experimental development is three years.

R&D income tax relief

(Úľava na dani z príjmu)

Description of benefits

The tax credit may be granted for a proportional part of the tax base (depending on the R&D costs financed by the beneficiary's own funds and total R&D costs). The amount of tax relief is limited by the absolute amount of aid recognized for the given type stipulated by a particular funding program. The grantor is the Ministry of Finance, and the tax relief is administered via tax returns submitted to the relevant tax authority. Particular funding programs have a predefined amount of funds and the funding amounts vary by the type of program. The amount of grants ranges from 25% to 100% of eligible costs depending on the type of R&D project and size of the enterprise. The maximum value is further limited by the fixed maximum amount of the grant. Companies are required to seek approval from the Ministry of Education in order to obtain the R&D income relief.

Guidelines around incentive applications

R&D income tax relief is applicable to future investments. Project should not be commenced before to the application to the funding program is submitted to the Ministry of Education. The incentive is claimed via the corporate income tax return form. A tax credit may be applied for up to three consecutive tax years (the first tax year is the year when the decision on the approval of granting the incentive is issued by the Ministry). The deadline for filing the corporate income tax return is the end of the third month following the respective financial year.

Investment aid for technological centers

(Investičná pomoc pre technologické centrá)

Description of benefits

Investment aid may be granted upon the submission of an investment project on establishment or expansion of a center for innovation and technology and its approval by the relevant Ministry. Further, an approval by the Slovak Government is also required (with the exception of a tax credit for investment projects) where eligible costs exceed €200 million.

Cash grants may be acquired for:

- ▶ The acquisition of tangible and intangible fixed assets
- ▶ Contribution for the creation of new jobs

Tax credits may be granted for a proportional part of the tax base, depending on the amount of eligible cost incurred in a given period and on the amount of equity of the beneficiary. Transfer of immovable assets owned by the state or municipality at a price lower than the market price may be awarded in exceptional circumstances, as a part of regional aid. A tax credit may be applied for up to 10 consecutive tax years (the first tax year is the year when the decision on the approval of granting the incentive is issued by the Ministry). The amount of aid ranges from 0% to 50% of eligible costs and depends on the region where the project is realized and on the size of the enterprise. The aid is limited to a fixed amount of grants in case of contribution for the creation of new jobs.

Guidelines around incentive applications

The incentive is applicable to future investments. The incentive is provided in the form of a tax credit and is claimed via the corporate income tax return form. The deadline for filing the corporate income tax return is the end of the third month following the respective financial year. Work on the investment project should not be commenced prior to receiving written confirmation from the Ministry of Economy stating that the project has potential to meet the requirements for investment aid grant. Investment project requirements stipulated by legislation should be met by the end of three years after the investment aid was approved.

Subsidy on scientific and technical services

(Dotácia na vedecko-technické služby)

Description of benefits

A subsidy on scientific and technical services may be granted upon successful application to the specific funding programs of the Ministry of Education, usually administered by the Slovak Research and Development Agency.

Specific funding programs have predefined amounts of funds and the funding amounts vary by the type of program. Taxpayers are required to obtain approval from the Ministry of Education in order to obtain the subsidy.

Guidelines around incentive applications

The incentive is applicable to future investments.

Eligibility requirements

Generally, incentives may be granted to any entity from any industry; however, specific requirements regarding entity and industry may be stipulated by the particular funding program.

Specific eligibilities for each incentive are below.

R&D subsidy and R&D income tax relief

Qualifying expenses include direct costs (e.g., wage costs, costs of business trips, costs of repairs, procurement, or overhead expenses) and indirect costs (e.g., depreciation of assets or costs on energy) depending on the type of R&D project.

Companies are required to meet the following conditions after incentive approval:

- ▶ Creation of a new R&D workplace operating for at least five years after the incentive was provided
- ▶ Expansion of an existing R&D workplace operating for at least five years after the incentive was provided

Investment aid for technological centers

Qualifying activities include the establishment or expansion of a center for innovation and technology. Specific conditions for granting investment incentives are as follows:

- ▶ The acquisition must be of tangible and intangible assets in an amount of at least €500,000, of which at least 50% is covered by the equity of the applicant.
- ▶ At least 70% of total employees are employees with a university education.
- ▶ Realization of the investment project leads to the creation of new jobs.

Further, the following conditions should be met:

- ▶ An applicant must prove ability to co-finance the project costs (at least 25%) from own resources or external financing (free of any investment aid/subsidy).
- ▶ The project must be completed within three years.
- ▶ The project must comply with all conditions attached to the approval of the investment aid, no later than within three years from issuance of the approval.
- ▶ All subsidized job positions must be filled within three years from the project completion and maintained for a period of five years.
- ▶ The project operation must be maintained for a minimum period of five years from its completion without change of its location.

Qualifying expenses include:

- ▶ Tangible fixed assets (e.g., land, buildings and plant/machinery)
- ▶ Intangible fixed assets (e.g., patents, licenses, know-how or unpatented technical knowledge) acquired under market conditions
- ▶ Salaries of employees employed with connection to the investment project

Subsidy on scientific and technical services

Qualifying activities include scientific and technical services (e.g., scientific knowledge sharing, licensing, advisory, research, technical standardization and education). Qualifying expenses include direct costs (e.g., wage costs, costs of business trips, costs of repairs, procurement, or overhead expenses) and indirect costs (e.g., depreciation of assets or costs on energy).

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Slovakia.

Role of governmental bodies in administering incentives

The decision on the amount of R&D incentives is at the discretion of the Government and depends on available state budget resources.² The Ministry of Education administers the R&D subsidy, R&D income tax relief, and subsidy on scientific and technical services, mainly through the Slovak Research and Development Agency. The Ministry of Economy administers investment aid for technological centers. Any incentives granted in the form of a tax credit are granted by the Ministry of Finance.

² However, an exception applies for a tax credit for investment projects where costs exceed €200 million.

Administrative requirements

The approval process of an application for R&D subsidy, R&D income tax relief or subsidy on scientific and technical services includes the following:

- ▶ The application is filed on particular funding programs with the Ministry of Education before commencement of work on the project (the application should meet all conditions stipulated by law, including all obligatory attachments).
- ▶ The Ministry of Education evaluates the project. The Ministry of Education seeks two independent expert opinions in determining its decision on approval of the incentives.
- ▶ If the amount of incentives does not exceed €2 million, the Ministry of Education issues the decision on whether the incentives are granted.
- ▶ If the amount of incentives exceeds €2 million the Government is required to make the approval. An exception applies to a tax credit for investment projects with eligible costs exceeding €200 million.
- ▶ If the project exceeds the State Aid notification threshold, the granting of the incentive is subject to approval by the European Commission.
- ▶ Agreement for granting incentives is concluded with the Ministry of Education.

The approval process for an application of investment aid for technological centers includes the following:

- ▶ The investment project is filed with the Ministry of Economy (the investment project should meet all conditions stipulated by law, including all obligatory attachments).
- ▶ The Ministry of Economy reviews the investment project.
- ▶ The Ministry of Economy issues preliminary confirmation that the investment project has the potential to meet conditions for investment aid to be granted.
- ▶ The Ministry of Economy issues a proposal for investment aid.

- ▶ The beneficiary files a request for investment aid based on the proposal received.
- ▶ The Ministry of Economy approves the request.
- ▶ The Government approves the request if not subject to State Aid notification to the European Commission.³
- ▶ If the project exceeds the State Aid notification threshold, the granting of the incentive is subject to approval of the European Commission.
- ▶ The decision is issued to the beneficiary.
- ▶ The beneficiary is required to prepare and present annual monitoring reports on realization of the project and a final evaluation report within three months of the conclusion of the investment project. Furthermore, the annual reports on utilization of investment are required to be submitted not only for at least five years after the investment project is finalized, but also during the entire period of utilization of tax credit (i.e., up to 10 years). The annual monitoring reports and final evaluation report are required to be reviewed and confirmed by an external auditor. The audited financial statements are required to be enclosed with annual reports on utilization of investment.

Statutory reference

- ▶ Act No. 185/2009 Coll. on Research and Development Incentives
- ▶ Act No. 172/2005 Coll. on the organization of state support of R&D
- ▶ Act No. 561/2007 Coll. on Investment Aid
- ▶ Regulation No. 481/2011 Coll. on maximum intensity of investment aid
- ▶ Commission regulation (EC) No. 800/2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General block exemption regulation)

³ However, an exception applies for a tax credit for investment projects where costs exceed €200 million.



Slovenia

Slovenia

This chapter is based on information current as of 15 March 2014.

EY contact:

Lucijan Klemenčič

lucijan.klemencic@si.ey.com

+386 1 583 17 21

Overview

R&D incentives are used to recognize the significant contribution that R&D plays in building globally competitive companies and as a tool to attract foreign investors. There are several R&D incentives to attract R&D activity in Slovenia.

2014 tax rates

Top corporate income tax rate
(national and local average)

17%

Standard VAT rate

22%

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input checked="" type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	General R&D tax relief*	Cash grants	Financial support - reimbursable means	Loans
Types of incentives	▸ Super deduction	▸ Cash grants	▸ Financial support	▸ Loans

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

General R&D tax relief

(Olajšava za vlaganja v raziskave in razvoj)

Description of benefits

As of 2012, taxpayers can receive a double tax deduction for investments in R&D. Under the incentive, a 100% CIT base deduction is available on R&D investments and certain expenses incurred. Taxpayers are entitled to a general R&D tax relief, corresponding to 100% of the amount invested into R&D activities. The R&D tax relief and special investment tax relief cannot be claimed at the same time. Similarly, any R&D investments funded from the Budget of the Republic of Slovenia or the EU should also be excluded. The unused amount of the tax relief can be carried forward for five tax periods. The taxpayer has to evaluate whether the project and its expenses qualify for R&D tax relief.

Guidelines around incentive applications

General tax R&D relief is applicable for investments in a tax period and is claimed with the corporate income tax return. As the incentive is statutory-based, the claims follow the corporate tax filing timeline. In order to claim R&D tax relief, a prescribed form (Podatki v zvezi z olajšavo za vlaganja v raziskave in razvoj) should be submitted with the corporate income tax return. The form specifies all costs from various projects and programs and is filed as an appendix to a corporate income tax return, which is submitted on a preceding-financial-year basis. Additionally, a taxpayer should provide a more detailed report on relevant R&D investments, which should be submitted on request of the tax authorities.

Cash grants

(Nepovratna sredstva)

Description of benefits

Cash grants are a form of state aid. Therefore, in line with common European rules on state aid, it should be implemented as a public tender. Every public tender is published in the Official Gazette of the Republic of Slovenia. The Ministry of Finance regularly publishes a list of open state aid. The current program was initially open until 31 December 2013 and has now been prolonged to 30 June 2014 because, due to a new financial perspective for 2014 to 2020, new programs for state aid will be introduced by 1 July 2014. Cash grants are usually provided as a subsidy or as a donation.

Guidelines around incentive applications

Cash grants are intended for new investments or activities, not yet started or realized. To qualify for a specific cash grant, the company must fulfill conditions specified in a public tender.

Financial support – reimbursable means

(Povratna sredstva)

Description of benefits

All forms of financial support are in a form of state aid. Therefore, in line with common European rules on state aid, it should be implemented as a public tender. Every public tender is published in the Official Gazette of the Republic of Slovenia. The Ministry of Finance published a list of state aids, which was initially open until 31 December 2013 and has now been prolonged to 30 June 2014 because, due to a new financial perspective for 2014 to 2020, new programs for state aid will be introduced by 1 July 2014. Financial support can be provided as a loan, guarantee or capital increase (venture capital funds).

Guidelines around incentive applications

Financial support is intended for new investments or activities, not yet started or realized. To qualify for specific financial support, the company must fulfill conditions specified in a public tender.

Loans

(Posojila)

Description of benefits

Legal entities established in Slovenia that are performing R&D activities (industrial research and experimental development) and/or investing in tangible and intangible assets for the purpose of R&D activity and who aim to introduce new products or solutions to the existing market (or when entering new markets) may obtain a loan from a specified institution (SID Bank) with more favorable terms and conditions. Loans granted are regarded as state aid. The interest rate is usually based on the rating of the company, the quality of the submitted insurance collateral, loan maturity and other risk parameters.

Guidelines around incentive applications

Loans are applicable to future investments. The eligible company must submit an application to the specified institution before the project has started. The project must be carried out in Slovenia.

Eligibility requirements

General R&D tax relief

The design of the R&D regime is strongly based on the OECD's 2002 Frascati Manual and interpretations contained therein.¹ For R&D to qualify for tax relief, a company must be carrying on a project that seeks an advance in science or technology. The company must be able to state what the intended advance is and to show how, through the resolution of scientific or technological uncertainty, the project seeks to achieve this.

The advance being sought must constitute an advance in the overall knowledge or capability in science or technology, not a company's own state of knowledge or capability alone. Once the advance in science or technology has been articulated, the scope of the R&D project has been defined and the project activities falling within the definition of R&D for tax purposes have been identified, the tax rules in the Slovenian Corporate Income Tax Act set out expenditures that may be eligible for relief and conditions that must be satisfied for the expenditure to qualify for relief. Any business carrying on qualifying R&D projects may claim general R&D tax relief.

Qualifying expenses for the general R&D tax relief are those incurred for internal and external R&D activities. For internal R&D activities, the following costs should be stated:

- ▶ Costs of material
- ▶ Service costs
- ▶ Labor costs
- ▶ Purchasing cost of R&D equipment

For external R&D activities, the following costs should be stated:

- ▶ Costs of contracts with external experts and researchers performing the work on R&D projects or programs
- ▶ Costs of contracts for performing R&D activities, concluded with R&D organizations and other parties that are registered for performing R&D activities

¹ www.oecd.org/innovation/inno/frascaticmanualproposedstandardpracticeforsurveysonresearchandexperimentaldevelopment6thedition.htm.

Cash grants and financial support

Eligibility requirements are different for each tender. Usually a cash grant is given up to a certain percent of the total value of the investment or project; therefore, an applicant has to secure a part of resources. Additionally, eligible costs are defined, which can be included in a cash grant/financial support request.

Loans

Any legal entity established in Slovenia that is carrying out eligible activities in Slovenia may file an application for a loan at the specified institution (i.e., SID Banka). The loan may cover up to a specific percentage of the eligible costs for a project.

IP and jurisdictional requirements

There are no jurisdictional requirements on the location of the IP.

Technology or innovation zones

Incubators have been developed in Slovenia in the past 20 years. Among the different types of incubators, technological parks are especially important for R&D activities because mostly high-tech companies are incubated. University incubators focused in applied technologies and the transfer of theory into practice are also especially important. Incubators can apply for specific allocated funds from the Slovene Enterprise Fund and for other public tenders organized by the Slovene Enterprise Fund or SPIRIT. Additionally, they can apply for EU funds. Incubators provide business premises for newly established companies on more favorable conditions and provide them with advisory, management and administrative services.

The Slovene Association of Technology Parks and Incubators integrates eight local and regional technological parks, two university incubators and the Institute for Entrepreneurship Research. The purpose of this organization is the formation of common interests and representation to the competent

Ministries, experiences and knowledge exchange and transfer between members, cooperation in EU projects, and comparison to related institutions in developing environments and common promotion.

Only newly established high-tech companies can apply to be integrated into technological parks. Entrepreneurial incubators are designed for all other types of newly established companies. In order to receive incentives, the incubators have to meet conditions set in the Supportive Environment for Entrepreneurship Act to apply for state funds. Newly established companies can benefit from more beneficial conditions and services provided by an incubator only for a limited period, usually up to three years.

An incubator must be registered in the record of innovative environment subjects, led by SPIRIT.² Subscription or renewal should be done on an annual basis based on a public invitation.

Role of governmental bodies in administering incentives

General R&D tax relief

Eligible projects are not subject to prior evaluations or approvals by the tax authorities or other Governmental bodies. However, if in the course of a tax audit the tax authorities determine that R&D expenses were unjustified (i.e., that those expenses should not be deducted from the taxpayer's taxable base), they may reassess the tax base and impose late payment interests on underpaid tax. Penalties for a tax offence may also be imposed in certain circumstances. The relative statute of limitations for the reassessment of the tax base is five years, while the absolute statute of limitations is 10 years. The relative statute of limitations for the right to assess a penalty is two years, while absolute statute of limitations is four years.

² SPIRIT is a public agency of Slovenia for the promotion of entrepreneurship, innovation, development investment and tourism.

Cash grants and financial support

Cash grant and financial support programs are run by different public institutions (different public funds or agencies or SID Bank) and/or by the competent ministry.

The Slovene Enterprise Fund was established to improve access to financial resources for different development – business investments of micro, small and medium-sized enterprises (SMEs) – via financial engineering, which is mainly based on financial instruments with refundable means (loans, guarantees for loans, subsidized interest rates, venture capital), allowing for the combination of financial resources from different financial institutions.

Loans

The terms and conditions of every public tender for loans (program of public tender) require approval from the Ministry of Finance before being published on the website of SID Banka and before becoming binding. Applications are, however, approved by the specified institution (SID Bank).

Administrative requirements

General R&D tax relief

To be eligible for the R&D tax relief, the company must submit the prescribed form with the corporate income tax return. However, the company must have prepared a special business plan or development project documentation, which should be submitted to the tax authorities only upon request. If the tax authorities are not sure whether specific costs or investments can be classified as investment in R&D, they may request a preliminary opinion from the ministry competent for technology, which should issue the opinion within 30 days of the request.

According to information obtained from the tax authorities, an option to request prior opinion regarding eligibility of the project for R&D tax relief should be available to the taxpayers. In such a case, the taxpayer would submit a request for opinion to the tax authorities, and the tax authorities would forward the request to the ministry competent for technology to obtain the opinion for the taxpayer.

Cash grants, financial support and loans

The Slovenian Ministry of Economic Development and Technology regularly publishes information about international or EU public tenders focused on innovation projects and related research. Eligibility requirements for each tender are different and subject to prior approval by the European Commission or other designated body.

At the national level, subsidies for innovative companies, guarantees for bank loans, and refundable or nonrefundable funding for companies performing R&D activities are offered by specified institutions (the competent Ministry, Public agency SPIRIT, the Slovene Enterprise Fund, SID Bank). Similarly, eligibility requirements for tenders depend on the particular tender and competent body offering the incentive.

The objective of such incentives is to increase business investments in R&D in order to promote the integration of the Slovenian economy into international scientific research programs, to promote employment and training of researchers and developers, and to construct a proper national innovation system.

- ▶ Cash grants and financial support
 - ▶ All cash grant and financial support requests must be sent to the institution that runs the applicable program by the specified date. In accordance with the rules of specific public tender, the institution may approve the grant application within the set deadline after the final date for sending the request.
- ▶ Loans
 - ▶ An application for a loan with the accompanying enclosures has to be submitted to the specified institution (SID Bank).

Statutory reference

- ▶ Slovenian Corporate Income Tax Act ("Zakon o davku od dohodkov pravnih oseb – ZDDPO-2," Official Journal 117/2006 and subsequent amendments)
- ▶ Rules on exercising the rights to relief concerning investments in R&D ("Pravilnik o uveljavljanju davčnih olajšav za vlaganja v raziskave in razvoj," Official Journal 138/2006, 75/2012)
- ▶ Every public tender has its own legal framework



South Africa

South Africa

This chapter is based on information current as of 15 March 2014.

EY contact:

Corlie Hazell

corlie.hazell@za.ey.com

+27 11 772 3990

Overview

With regards to the available super deduction and accelerated depreciation incentives, the South African Government's objective is to incentivize R&D that represents innovation coming out of the country. Advancements and improvements are not incentivized if they cannot be proven to be innovative and representative of global advancement.

The R&D regime has been available since November 2006 and legislation has since been updated to require preapproval for the additional deduction. The regime is perceived as not very mature as the regulating authorities are still trying to overcome administration issues.

Currently, taxpayers incurring expenditures directly attributable to scientific or technological R&D can claim an additional 50% of qualifying expenditure preapproved by the Department of Science and Technology (DST) resulting in a total deduction of 150%. New and unused R&D machinery or plants will qualify for a four-year write-off (40%, 20%, 20%, 20%) if they meet certain criteria.

With regards to cash grants, the Support Programme for Industrial Innovation (SPII) is designed to promote technology development in South Africa's industry, through the provision of financial assistance for the development of innovative products and/or processes. SPII is focused on the development phase, which begins at the conclusion of basic research and ends at the point when a preproduction prototype has been produced.

2014 tax rates

Top corporate income tax rate (national and local average)	28% ¹
Standard VAT rate	14% ²

¹ South African Income Tax Act, 58 of 1962.

² Value added Tax Act, 89 of 1991.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Section 11D*	Section 12C (1) (gA)	Support Programme for Industrial Innovation (SPII)
Types of incentives	▶ Super deduction	▶ Accelerated depreciation on qualifying R&D assets	▶ Cash grants

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Section 11D

Description of benefits

Since November 2006, a super deduction equal to 150% is allowed per year for qualifying direct R&D costs. Starting 2012, the benefit is only available upon preapproval of projects. If a company is in an assessed loss position, the additional deduction will increase the assessed loss. The loss can be utilized against future taxable income. Losses can be carried forward indefinitely.

Guidelines around incentive applications

The super deduction is applicable for current and future investments. Since the preapproval process was introduced, retrospective claims can only be included in tax returns covering periods before October 2012. Once tax returns have been assessed they prescribe after three years. Preapproval needs to be obtained from the DST and upon approval, certain expenditure incurred on the approved project(s), applicable from the date of filing the application, will be eligible for the additional 50% deduction at the time of filing the tax return. In order to claim the incentive, an application needs to be filed with the DST. Only expenditures incurred from the date of filing the application are eligible for the additional 50% deduction.

Section 12C (1) (gA)

Description of benefits

Capital expenditures incurred to develop or construct assets used in the conduct of qualifying R&D activities qualify for accelerated depreciation at a rate of:

- ▶ First year asset is in use: 40%
- ▶ Next three years: 20%

If a company is in an assessed loss position, the allowance deduction will increase the assessed loss. The loss can be utilized against future taxable income. Losses can be carried forward indefinitely.

Guidelines around incentive applications

The incentive is applicable for current and future investments. The accelerated depreciation commences in the year the asset was brought into use. No preapproval is required to claim the accelerated allowance.

SPII

Description of benefits

The SPII is administered by the Industrial Development Corporation (IDC) on behalf of the Department of Trade and Industry (DTI) and provides financial assistance in the form of cash grants for the development of innovative products and/or processes. The SPII offers three schemes as described below.

- ▶ SPII Product Process Development (PPD) scheme – This scheme applies to small, very small and micro enterprises. It provides for a reimbursement grant (maximum ZAR1 million per project) that ranges between 50% and 85% of the qualifying costs. The percentage is based on the percentage ownership by certain disadvantaged groups.
- ▶ SPII Matching scheme – This scheme is available to all companies except those with more than 50% IDC shareholding. It provides for a taxable and non-repayable grant of up to ZAR5 million based on a percentage of qualifying costs for a specific development project.
- ▶ SPII Partnership scheme – This grant is available to large companies and is a repayable grant of 50% of the qualifying costs. The grant is repayable in the form of a levy based on sales. The minimum grant is ZAR10 million per project.

Guidelines around incentive applications

The incentives are applicable for qualifying projects. A complete application must be submitted to the SPII administration.

Eligibility requirements

Section 11D

Eligible expenditures include all expenditures actually incurred by a taxpayer directly and solely with respect to R&D undertaken in the Republic of South Africa if those expenditures are incurred in the production of income and in the carrying out of any trade.

No deduction shall be allowed for expenditures incurred with respect to:

- ▶ Market research, market testing or sales promotion
- ▶ Administration, financing, compliance or similar expenditure
- ▶ Routine testing, analysis, collection of information or quality control in the normal course of business
- ▶ Development of internal business processes unless those internal business processes are mainly intended for sale or for granting the use of or right of use or the grant of permission to use thereof
- ▶ Social science research, including the arts and humanities
- ▶ Oil and gas or mineral exploration or prospecting, except R&D carried on to develop technology used for that exploration or prospecting
- ▶ The creation or development of financial instruments or products
- ▶ The creation or enhancement of trademarks or goodwill
- ▶ Patent, trademark and other IP registration costs

The criteria to qualify for the R&D super deduction are as follows:

- ▶ Discovery of non-obvious scientific or technological knowledge, related to discovery of something that already exists in nature (e.g., the genetic makeup of a virus). Qualification of activities under this category appears to be rare, based on authorities' interpretation.
- ▶ The development of:
 - ▶ Functional designs: related to design of physical objects (e.g., the design of a piece of equipment)
 - ▶ Inventions: related to inventing new products or processes (most R&D activities in South Africa fall under the invention category)

- ▶ Computer programs: related to developing software (the software must be developed for license or sale)
- ▶ Knowledge essential to the use of such invention, design or computer program
- ▶ Development or significant improvement of any invention, design, computer program or knowledge if that development or improvement relates to any of the following:
 - ▶ New or improved function
 - ▶ Improvement of performance
 - ▶ Improvement of reliability
 - ▶ Improvement of quality

Section 12C (1) (gA)

The criteria to qualify for the accelerated depreciation incentive are as follows:

- ▶ Assets need to have been acquired by the taxpayer under an agreement formally and finally signed by all parties on or after 1 January 2012.
- ▶ Assets were thereafter brought into use by the taxpayer for purposes of Section 11D research and development.

SPII

The criteria to qualify for cash grants are as follows:

- ▶ Development should represent a significant advancement in the field of technology.
- ▶ Development and subsequent production must take place within South Africa.
- ▶ IP must reside in a South African-registered company.
- ▶ Participating businesses must be South African-registered enterprises.
- ▶ Government-funded institutions (e.g., CSIR) do not directly qualify for support but may participate as subcontractors.
- ▶ There may be no simultaneous applications from the same company.

The following projects do not qualify:

- ▶ Development for single customer
- ▶ Basic and applied research
- ▶ Projects receiving other Government funding

- ▶ Military projects
- ▶ Those for which SPII contribution is not significant (at least 20% of total project costs)

The qualifying costs are as follows:

- ▶ Personnel-related costs
- ▶ Travel expenses (defined maximum)
- ▶ Direct material
- ▶ Capital items and tooling (pro rata)
- ▶ Software (not general software)
- ▶ Documentation
- ▶ Testing and trials
- ▶ Licensing costs
- ▶ Quality assurance and certification
- ▶ Patent costs
- ▶ Subcontracting and consulting

The following are non-qualifying costs:

- ▶ Production and commercialization costs
- ▶ Marketing and administrative costs
- ▶ Costs for product/process development for a single client
- ▶ Costs for basic and applied research
- ▶ Costs for projects that, at the time of application, are more than 50% (70% for PPD) complete
- ▶ All costs incurred prior to submitting a duly completed application

IP and jurisdictional requirements

Effective date

- ▶ Super deduction: November 2006
- ▶ Accelerated depreciation: November 2006
- ▶ Cash grants: April 1993

Qualifying IP

Inventions, functional designs and computer programs

Can work be performed outside the country?

Expenditures related to work done outside of the country will not be eligible for the super deduction. Only expenditures incurred in South Africa will be eligible.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in South Africa.

Role of governmental bodies in administering incentives

Under the legislation (effective 1 October 2012), a committee consisting of Treasury, DST and South African Revenue Service officials is required to pre-approve projects before the super deduction can be claimed. The IDC administers SPII program on behalf of the DTI.

Administrative requirements

Section 11D

Taxpayers may still claim the deduction under the previous legislation to the extent that the expenditure is incurred prior to 1 October 2012. Any expenditure thereafter has to pass through a preapproval process. The preapproval process consists of the submission of a preapproval application form, approval or rejection by the adjudication committee, and the submission of progress reports.

The compliance process is detailed below:

- ▶ Submission of preapproval application form to the DST
- ▶ Progress update report filed annually for approved projects still ongoing 12 months after the close of the year of assessment in which approval was granted:
 - ▶ Progression of the project (what stage it is in)
 - ▶ Technological uncertainties overcome or advancement achieved
 - ▶ Type of R&D activities performed
 - ▶ Universities/contractors used in the process
 - ▶ Description of work performed in and outside of South Africa
 - ▶ Types of records kept
 - ▶ R&D expenditure to date
 - ▶ The R&D's sources of funding
 - ▶ Employment created
 - ▶ Skills developed (training)
- ▶ Notification of change document indicating any material change(s) made to any ongoing project/program/technological area that has been approved:
 - ▶ The form only needs to be submitted for any material changes in the project before the progress report is due.

Statutory reference

Section 11D (super deduction), and Section 12C (1) (gA) (accelerated depreciation). The legislation was changed effective from 1 October 2012. Major changes related to the introduction of a preapproval process and the broadening of the R&D definition.



South Korea

South Korea

This chapter is based on information current as of 15 March 2014.

EY contact:

Won Bo Jung

won-bon.jung@kr.ey.com

+82 2 3770 0945

Overview

The R&D tax incentives in South Korea are mature, having existed for more than 10 years. The Tax Incentives Limitation Law (TILL) that currently governs R&D tax incentives has been effective since 1 January 1999. The R&D tax incentives aim to encourage the investment in R&D activities or facilities that enhance productivity and competitiveness of national industries. Currently, there are various R&D incentives in South Korea to encourage R&D activities; however, the R&D tax credit and R&D facility tax credit are the most notable R&D incentives in South Korea.

2014 tax rates

Top corporate income tax rate
(national and local average)

24.2%¹

Standard VAT rate

10%²

Types of incentives

Tax credits



Cash grants



Loans



Reduced tax rates/preferable tax rates



Reduced social security contributions



Accelerated depreciation on the R&D assets



Tax allowance



Infrastructure/land preferential price



Tax deductions (including super deductions)



Tax exemptions



Income tax withholding incentives



Patent-related incentives



Financial support



Tax holiday



Expedited Government approval process



Value-added tax reimbursement



Other



¹ Article 55 of South Korea's Corporate Income Tax Law.

² Article 55 of South Korea's Corporate Income Tax Law.

Incentives available

Names of incentives	R&D tax credit	R&D investment tax credit
Types of incentives	▶ Tax credits	▶ Tax credits

R&D tax credit

Description of benefits

Two types of tax credits are available under the R&D tax credit program for qualifying companies in Korea:

- ▶ Growth industry and source technology R&D credit: 20% tax credit for R&D expenditure incurred by new, high-growth companies with original technology. The credit is increased to 30% for SME.
- ▶ Ordinary R&D credit:
 - ▶ Large corporations: the credit equals the greater of: (i) 40% of current-year R&D expenditures exceeding the average of the two prior years (prior year for 2015) R&D expenditures, or (ii) the R&D expenditures for the current year multiplied by 3% plus an additional rate defined as 50% of the R&D expense ratio, capped at 4% (previously 6%).
 - ▶ High Potential Enterprises (HPEs): the credit equals the greater of either: (i) 40% of current-year R&D expenses exceeding the average of the two prior years (prior year for 2015 and thereafter) R&D expenditures, or (ii) 8% of current R&D expenditures.
 - ▶ SMEs: the credit equals the greater of either: (i) 50% of current-year R&D expenses exceeding the average of the two prior years (prior year for 2015 and thereafter) R&D expenditures, or (ii) 25% of current R&D expenditures.

Unutilized R&D tax credits can be carried forward for up to five years. Amendment of a prior R&D credit is available so long as the amended corporate income tax return for claiming a refund of R&D credit is filed within three years of the original filing due date.

Guidelines around incentive applications

The R&D tax credits are applicable for current investments. A domestic corporation that intends to apply the R&D tax credit is required to file, along with its annual corporate income tax return, an application form (Form 1 under the TILL), a detailed statement of R&D expenses (Form 3 under the TILL) and an R&D plan to the competent tax office within three months of the end of its fiscal year.

R&D Investment tax credit

Description of benefits

To encourage investment in the development of new R&D facilities, an additional credit of 10% (5% for HPEs and 3% for large corporations) of the cost of developing a new R&D facility may also be available in the year that the R&D facility is completed. R&D facilities include:

- ▶ Facilities for qualified research and experiment
- ▶ Facilities for qualified vocational training
- ▶ Facilities for commercialization of qualified new technology

Unutilized R&D facility tax credits can be carried forward for up to five years. Amendment of a prior R&D credit is available so long as the amended corporate income tax return for claiming refund of R&D credit is filed within three years of the original filing due date.

Guidelines around incentive applications

The R&D facility tax credit applies to current investments. A domestic corporation that intends to apply the R&D facility tax credit is required to file, along with its annual corporate income tax return, the application form (Form 1 under the TILL) to the competent tax office within three months of the end of its fiscal year.

Changes in South Korea's 2014 tax reform proposal

As of 1 January 2014, deductibility of the R&D reserve is no longer available. Under the previous tax law,³ 3% of a company's reserves used for future R&D was permitted to be deducted for corporate income tax purposes. Under the new law, these reserves are no longer deductible. Amounts that were accrued until 31 December 2013 may be deducted.

Eligibility requirements

Qualifying activities include R&D activities conducted by a dedicated R&D center of the corporation or the corporation's internal R&D center, both of which should be registered with the Government (i.e., Ministry of Science, Information & Communication Technology and Future Planning in Korea).

Eligible R&D expenditure is defined as contracted, salary and material expenditures that are directly related to R&D. Additionally, manpower development expenditure is eligible where it directly relates to R&D so long as it is incurred by R&D institutes or R&D-dedicated departments. Ineligible expenditure includes:

- ▶ General management and supporting activities
- ▶ Market research and promotional activities or general quality testing
- ▶ Repetitive information gathering activities
- ▶ Activities to improve management or staff efficiency
- ▶ Legal and administrative activities such as protection of patent rights, etc.

- ▶ Exploration and investigation activities related to reserves of natural resources including minerals
- ▶ Research activities on contract basis

IP and jurisdictional requirements

R&D activities resulting in new IP may be performed outside of South Korea, and the IP does not have to be registered or owned locally. However, the company claiming the R&D incentive must be the beneficiary of the results of the R&D activities and be incorporated in Korea.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in South Korea.

Role of governmental bodies in administering incentives

Each year, the Korean National Tax Service reviews R&D tax incentive applications that have been submitted with a corporate income tax return and processes the expenditure claims. The R&D expenditure claims may also be subject to written information requests or a tax audit in the future.

Administrative requirements

According to the Technology Development Promotion Law, the company is required to claim and register with the Ministry of Science when the company incorporates an R&D department or R&D center.

Statutory reference

- ▶ Reserve for R&D expenditure – Article 9 of the TILL
- ▶ R&D tax credit – Article 10 of the TILL
- ▶ Tax credit for investment made on R&D facilities – Article 11 of the TILL

³ Article 9 of the TILL.



Spain

Spain

This chapter is based on information current as of 15 March 2014.

EY contact:

Víctor Gómez de la Cruz Talegón
victor.gomezdelacruztalegon@es.ey.com
+ 34 915 727 378

José Luis Prada
jose Luis.pradalarrea@es.ey.com
+34 933 666 520

Overview

Tax benefits regarding R&D and innovation activities have always received preferential treatment in the Spanish tax system.

Spanish CIT law has been recently modified to enhance the R&D and technological innovation (TI) incentives to stimulate higher investments by private companies into R&D.

Spanish R&D tax incentives take the following forms:

- ▶ Tax deferrals and accelerated depreciation on the R&D assets
- ▶ Tax credits provided for expenses related to R&D and TI activities
- ▶ Patent-related incentives consisting of a partial exemption and tax allowances

Reform of Spanish CIT Law will likely occur in 2015 and 2016. A draft bill published by the Council of Ministers on June 23, 2014 would generally maintain the current R&D tax regime, although the increased tax credits shown in this guide as to enter into force as of 2016 are not foreseen in the current draft bill.

2014 tax rates

Top corporate income tax rate (national and local average)	30% ¹
Standard VAT rate	21% ²

¹ 8th Additional Provision of the Spanish CIT Law (4/2004), 5 March.

² Article 90. One of the Spanish VAT Law (37/1992), 28 December. Depending on goods and services, 4%/10% rates are also applicable.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Tax credit for R&D expenses	Patent box regime
Types of incentives	► Tax credits	► Partial tax exemption

Tax credit for R&D expenses

(Deducción por actividades de investigación y desarrollo e innovación tecnológica)

Description of benefits

- Spanish companies may benefit from a tax credit equal to 25% (basic credit: 35% as of 2016) of R&D expenses incurred in the tax year. If the expenses incurred exceed the average amount of those costs in the preceding two years, the rate of 25% applies to an amount equal to the average, while a rate of 42% applies to the excess.
- The tax credit base is formed of R&D expenditures and amounts invested in fixed and intangible assets (excluding real estate and land) directly related to R&D activities. For investments made in tangible and intangible assets (excluding buildings and land), the tax credit will be 8% (applicable to the aforementioned investments) as long as such investments exclusively relate to R&D activities.
- There is an additional 17% tax credit available against the gross tax due for the company's staff expenses related to skilled researchers exclusively assigned to R&D activities. This is an additional deduction available against CIT in relation to staff costs related to skilled researchers exclusively assigned to R&D activities.
- The expenditure must be individualized by projects. The amount of R&D expenses will be reduced by 65% of the subsidies received to encourage such activities, which are allocated to the tax period as income.
- If the amount of the R&D tax credits for the fiscal year exceeds 10% of the tax due, the tax credits may offset up to 50% (60% as of 2016) of the gross tax due. Otherwise, the tax credits may offset only up to 25% (35% as of 2016) of the gross tax due.
- Unused credits may be carried forward for 18 years.
- Additionally, the Spanish CIT Act also states that the execution of TI activities gives the right to apply a deduction on the expenses incurred in a tax period related to TI activities. The percentage of the tax credit applicable is 12%. It has been 12% from tax periods beginning on 6 March 2011.
- If the amount of the R&D tax credits for the fiscal year exceeds 10% of the tax due, the tax credits may offset up to 50% of the gross tax due. Otherwise, the tax credits may offset only up to 25% of the gross tax due.

New option to exclude the limit and get the refund of the tax credit

- As of 1 January 2013, if the taxpayer has generated the R&D tax credits that comply with certain specific requirements, the taxpayer may elect not to be subject to the annual limitation on tax credits (25%-50% or 35%-60% as of 2016) but apply the full tax credit with a 20% discount. With this option, taxpayers would limit the tax credit they apply up to 80% of the original amount they would have been entitled to credit to benefit from this alternative.
- In addition, as of 1 January 2013, a cash refund is available to taxpayers who are not able to utilize the full tax credit (with the 20% reduction) in the year after the tax credit was generated. In such a case, interest for late payment will not apply.
- The limit established for this option is up to €3 million for R&D activities and €1 million for innovative and technological activities.

- ▶ In order to apply this option, certain conditions should be met:
 - ▶ Only up to one year must have elapsed from the period in which the R&D tax deduction was generated without applying the tax credit.
 - ▶ The company must maintain or increase (i) its general average workforce size or (ii) the specific average workforce exclusively carrying out R&D activities, from the end of the period where the tax incentive was generated until 24 months elapsed from the tax year when this tax incentive is applied.
 - ▶ During the following two periods elapsed since the CIT return where the tax credit was applied, an amount at least equal to the tax credit to be applied or refunded must be assigned to R&D expenses or fixed or intangible assets that are exclusively assigned to R&D activities.
 - ▶ Finally, the company must obtain a duly reasoned report, issued by the competent authority, about the qualification of the activities carried out by the company as R&D activities.

There is 50% patent box relief, provided that:

- ▶ The assigning entity has created the assets to be assigned.
- ▶ The rights to use the assets are used by the assignee in the pursuit of an economic activity.
- ▶ The assignee is not resident in a country or territory that does not levy taxes or is considered a tax haven.
- ▶ If a single assignment agreement includes the provision of accessory services, a distinction must be made therein of the consideration payable for those services.
- ▶ The assignor must make the necessary book entries in order to determine the income and expenses, direct and indirect, corresponding to the assets under assignment.

With respect to the new patent box regime, the main points are summarized as follows:

- ▶ The rate of the relief is increased from 50% to 60%.
- ▶ The relief is no longer calculated on the basis of revenues but is calculated on the basis of income (positive difference between revenues derived from the assignment of the right of use/exploit of certain intangibles and certain deductible amounts as amortization, impairments or expenses related to the intangible). In the case of IP assets that are not registered in the company's books, the net income is deemed to be 80% of the total revenue associated with the IP.
- ▶ The patent box regime may now also apply to income deriving from the transfer of the intangible asset, unless the transfer is carried out between group entities.
- ▶ It is sufficient if the assignor has created the qualifying assets for at least 25% of their cost.
- ▶ The assignee may be a resident in a territory that does not levy taxes or is a tax haven, provided such jurisdiction is a Member State of the EU and the taxpayer proves that the transaction is carried out for valid business.
- ▶ The "six times limitation" no longer applies.
- ▶ Transactions between companies belonging to a Spanish tax consolidations group need to have transfer pricing documentation in place in order to benefit from this special tax regime.

Guidelines around incentive applications

Incentive credits are applied in the annual corporate income tax return. Corporate income tax is filed during the 25 days following the six months period from the taxpayer's financial year-end.

Patent box regime

(Reducción de ingresos procedentes de determinados activos intangibles)

Description of benefits

The patent box regime has recently changed, relating to assignments of IP carried out after 29 September 2013.

As of assignments of IP carried out before 29 September 2013, the prior regime remains applicable. In accordance with the Spanish CIT Act, revenues deriving from the supply of the right of use or exploit certain intangible assets benefit from a 50% reduction and consequently are taxed at a 15% rate. The qualifying IP must have been developed by the licensor, and the property of the qualifying IP should be kept by the licensor. The benefit is limited to an amount equal to six times the cost of the IP.

Guidelines around incentive applications

Incentive credits are applied in the annual corporate income tax return. Corporate income tax is filed during the 25 days following six months from the taxpayer's financial year-end.

Eligibility requirements

Qualifying activities are those dealing with scientific investigation and research for the manufacture of new materials or products, technological improvement of existing methods, new software, etc. Activities that do not entail significant scientific or technological novelty; activities relating to industrial production and the provision of services or distribution of goods and services; or activities relating to exploration, drilling or prospecting for minerals and oil and gas are not deemed to be R&D or technological innovation activities.

R&D investments must take place in Spain, in a Member State of the EU or EEA. R&D expenses connected to the production of income generally qualify as R&D expenses without restriction, except for investments made in land or property. Expenses incurred by the taxpayer, including the depreciation/amortization of the assets used in R&D activities shall be deemed to be R&D expenses if they are directly related to and are specifically and separately recorded against a specific project.

Regarding innovative and technological activities, eligible expenses include those that are connected with technological diagnosis; industrial designs; acquisitions related to patents, know-how and designs; and attainment of certificates (e.g., ISO 9000, GMP). Expenses incurred in innovative and technological activities shall be deemed to be innovative and technological expenses if they are directly related to and are specifically and separately recorded per project.

All industries that are incorporated in Spain (or a permanent establishment) are qualified when the R&D investments take place in Spain, in a Member State of the EU or EEA. No industry sectors are specifically excluded.

IP and jurisdictional requirements

Effective date

Tax periods beginning on 1 January 2009 with amendments applicable to assignments carried out after 29 September 2013.

Qualifying IP

Qualifying intellectual property is the assignment of the right to use (or transfer if carried out after 29 September 2013) qualifying intangible fixed assets, such as patents, drawings, models, plans, formulas and rights to information relating to industrial, commercial or scientific experience.

Types of income

Income derived from the assignment of the right of use or exploit (or transfer if carried out after 29 September 2013) of certain intangibles.

Calculation of income

Accounting income

IP regime rate

Regime applicable to assignments of IP carried out before 29 September 2013:

- ▶ A partial exemption (inclusion of 50% of the revenues in the taxable base) applies to income derived from IP.

Regime applicable to assignments of IP carried out after 29 September 2013:

- ▶ A partial exemption (inclusion of 40% of the income (difference between revenue and expense) in the taxable base) applies to income derived from IP.

Can work be performed outside the country?

The assignee must not be resident in a country that does not levy taxes or is considered a tax haven. As from 29 September 2013, if the assignee is a resident in a country or territory that does not levy taxes or is considered a tax haven but is a Member State of the EU, the taxpayer may prove that the transaction is carried out for valid business reasons.

Must the IP be registered/owned locally?

It is not necessary for the inscription of the asset to be in a public register.

Technology or innovation zones

Some regions in Spain have improved their R&D incentives. As an example, the Government encourages innovation and technical research in the Canary Islands by providing incentives to the R&D expenses incurred therein. In this sense, the regime is identical, but both the tax credits and the limits of the deduction are increased by 80% with at least 20 units of increase, with regard to the rest of the Spanish state. All industries are eligible for the incentives as long as the R&D work attempts to advance the underlying science or technology, creates new or improved products or processes, is innovative, is undertaken through systematic investigation and is documented.

Additionally, the Basque Country has its own R&D regime that improves the tax benefits of the standard federal regime. In this context, the general tax credit is 30% and 20% for TI; however, if the expenses incurred exceed the average amount of those costs in the preceding two years, the rate of 25% applies to an amount equal to the average, while a rate of 50% applies to the excess. Furthermore, an additional 20% tax credit may apply to certain R&D expenses, and a 10% tax credit will apply to tangible and intangible investments (except real estate and land) associated to R&D activities. There is no limit of application of the tax credit on the gross tax due, and unused credits may be carried forward for 15 years.

Role of governmental bodies in administering incentives

- ▶ The taxpayer may request a ruling (“motivated report”) from the Ministry of Science and Innovation (or related institutions). This report would confirm or deny the R&D nature of the expenses and investments carried out by the taxpayer. The report is binding on the tax authorities. As general rule, the request for a report should be sent with a technical analysis issued by an official certifying entity. The authorities have

three months to issue the report; however, the expiry of the term has no effects for the authorities or the taxpayer. In order to apply the optional regime regarding R&D tax credit, the company must obtain a duly reasoned report on whether its activities qualify as R&D activities.

- ▶ The taxpayer may also request a pre-agreed valuation report of the expenses related to the project from the tax authorities. This report should be requested prior to the project commencement and the tax authorities have six months to respond. Expiry of the term without tax authority response implies that the tax authorities accept the taxpayer’s proposal.
- ▶ Regarding transactions carried out after 29 September 2013, the taxpayer can request from the tax authorities, before such transactions are carried out, a valuation of the revenues and expenses related to the assignment as well as of the income to be generated from a transfer. In addition, the taxpayer can request an agreement on the qualification of the assets under one of the qualifying categories.

Administrative requirements

No preapproval or specific annual compliance is required for the R&D credits and patent box regime, with the exception of the duly reasoned report in order to apply the optional R&D regime, as explained above.

Statutory reference

The combined sum of all investment credits may not exceed 35% of the taxpayer’s corporate income tax liability. For tax periods beginning in fiscal years 2012 to 2015, this percentage is reduced to 25% due to the amendments introduced by Royal Decree-Law 12/2012 of 30 March 2012, modified by Law 16/2013 of 30 October. However, if the amount of the R&D tax credits for the fiscal year exceeds 10% of the tax due, the tax credits may offset up to 50% (60% as of 2016) of the gross tax due.



Sweden

Sweden

This chapter is based on information current as of 15 March 2014.

EY contact:

Rikard Ström

rikard.strom@se.ey.com

+46 8 520 592 08

Overview

Currently available incentives include:

- ▶ A reduction in social security contributions for R&D employees engaged in commercially performed R&D (under certain conditions)
- ▶ An expatriate tax regime with 25% tax relief for foreign key personnel who are experts and scientists with knowledge and skills that are scarce in Sweden, applying to individuals whose periods of assignment will not exceed five years and which may be granted for only the first three years of the assignment

Please note that tax follows the generally accepted accounting standard (i.e., Swedish GAAP), which means that there are no specific tax rules with regard to R&D income and expense. According to Swedish GAAP, R&D income and expenses should be taxable or deducted as ordinary income or expenses. In certain specific cases, such expenses are be capitalized.

The tax policy in Sweden in relation to R&D incentives is currently not very extensive.

2014 tax rates

Top corporate income tax rate
(federal and state average) 22%¹

Standard VAT rate 25%²

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

¹ "2014 Global tax policy outlook," EY website, www.ey.com/GL/en/Services/Tax/International-Tax/2014-tax-policy-outlook-Norway.

² Ibid.

Incentives available

Names of incentives	Reduced social security contributions for tasks concerning commercially performed R&D	Expatriate tax regime for certain foreign experts
Types of incentives	▶ Reduced social security contributions	▶ Tax exemption

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

Reduced social security contributions for tasks concerning commercially performed R&D

(Sänkt arbetsgivaravgift för forskning i kommersiellt syfte)

Description of benefits

The Swedish Government provides a reduction in contribution amounts for social security charges for R&D employees. Social security charges are currently rated at 31.42%. The reduction of the contribution amounts to 10% of the net salary of the R&D employee. The reduction in the base for contribution amount maxes out at SEK230,000 per company/group, per month (or SEK2,760,000 per year), which lowers actual social security charges by up to SEK867,000 annually. To utilize the incentive, taxpayers are required to dedicate a minimum 75% (and minimum 15 hours per month) of the working hours of R&D employees to R&D activities. Furthermore, the age of the employees must be above 26 and below 65 at the beginning of the year when the reduction is claimed. No carryback or carryforward option is available for the incentive, and no preapproval is required.

Ten percent of the net salary may be deducted from the social security contribution. The social security contribution consists of several charges, and the total amount of the contribution generally amounts to 31.42%. The total percentage of social security contribution shall not fall below the retirement pension fund charge at 10.21%; if so, the deduction is adjusted.

Guidelines around incentive applications

The incentive is applicable to current and future investments. The reduction should be claimed on a monthly basis through the company's employer return. The total base for social security contributions, as well as the claimed reduction, must be reported in the company's employer return.

Expatriate tax regime for certain foreign experts

(Expertskatt)

Description of benefits

Twenty-five percent of the salary and benefits are exempt from taxation for individuals who have been granted expatriate taxation classification. Additionally, moving expenses to and from Sweden, some travel expenses to the home country, and school fees are exempt.

Guidelines around incentive applications

In order to receive the incentive, preapproval is required from the Swedish Forskarskattenämnden (Researchers Tax Commission). Two different application forms are available. The first is for incentive applications at the specialist level, while the second is used for incentives applications at the remuneration level.

Eligibility requirements

Qualifying R&D activities are systematic, with commercial objectives. To fulfill the research requirement, companies shall develop new knowledge. To fulfill the development requirement, companies shall develop new products, services and production processes through the use of research material, or companies shall substantially enhance the quality of existing products, services and production processes. A substantial enhancement requires an alteration resulting in an essential improvement to quality, use, formation, production or provision. Furthermore, the development activity needs to be directly related to the research result. Projects conducted under public regime are not eligible for the incentives.

Reduced social security contributions for tasks concerning commercially performed R&D

To qualify for reduction of social security contributions, the employee must be tasked with business-oriented systematic and qualified research or development activities during at least 75% of working hours (ordinary production work does not qualify), with a minimum of 15 hours a month. The employee must be at least 26 years old but no older than 65. It should also be noted that the salary must be paid from an employer who is tax resident in Sweden (including a PE of a foreign person in Sweden).

Expatriate tax regime for certain foreign experts

The expatriate tax regime is granted only for maximum of three years and is available for foreign employees intending to work in Sweden for no longer than five years. The expatriate tax regime must be used during the first three years of the assignment. The individual may not be a Swedish citizen or a foreign citizen who has lived or resided in Sweden during the last five years. The employer must be established in Sweden or be a foreign corporation with a permanent establishment in Sweden.

The expatriate tax regime is available only for experts/specialists, key personnel, scientists and employees with a monthly salary in excess of a certain level. It requires preapproval from the Swedish Forskarskattenämnden (Researchers Tax Commission). Application for tax relief must be submitted by the employer or foreign person within three months of the start of employment. Applications are submitted to the Researchers Tax Commission within the national tax

administration. Decisions by the Commission may be appealed to county or national administrative courts. Employers, in reporting income to tax authorities, must include the key persons' tax-free amounts. All other reporting by employers follows standard procedures. It should be noted that there is no legal means for extending the application period in individual cases. Applications received by the Researchers Tax Commission just one day after the stipulated deadline will be considered to be late and will be rejected. It is therefore important to ensure that the application is submitted on time. There are two different application forms: one to apply for tax relief based on the level of remuneration and one to apply for tax relief on the other grounds.

IP and jurisdictional requirements

Effective date

- ▶ Reduced social security contribution – annually
- ▶ Expatriate expert tax – the first three years of an assignment; the assignment cannot be over five years

Tax follows GAAP (books); therefore, there are no specific tax rules with regard to R&D income and expense. According to Swedish GAAP, R&D income and expenses should in general be taxable or deducted as ordinary income or expenses. In certain specific cases, such expenses can be capitalized.

Qualifying intellectual property

The definition of qualifying IP is very broad and includes (but is not limited to):

- ▶ Literary or descriptive representation in writing or speech
- ▶ Computer programs
- ▶ Musical or dramatic works
- ▶ Cinematographic works
- ▶ Photographic or other works of visual art
- ▶ Work of architecture or applied art
- ▶ Works that have been expressed in some other way

- ▶ Patents
- ▶ Brand names
- ▶ Brands
- ▶ Inventions
- ▶ Trademarks
- ▶ Copyrights
- ▶ Designer rights
- ▶ Goodwill

Types of income

Income with regard to IP should be taxed as ordinary income and subject to the statutory corporate income tax of 22%.

Calculation of income

Income with regard to IP should be taxed as ordinary income and subject to the statutory corporate income tax of 22%.

Determination of embedded IP income

N/A

IP regime rate

Income with regard to IP should be taxed as ordinary income and subject to the statutory corporate income tax of 22%.

Can work be performed outside the country?

As a general rule, the R&D activities must be performed in Sweden in order to benefit from the incentives.

Must the IP be registered /owned locally?

Tax follows the generally accepted accounting standard (i.e., Swedish GAAP), which means that there are no specific tax rules with regard to R&D income and expense. According to Swedish GAAP, R&D income and expenses should be taxable or

deducted as ordinary income or expenses. In certain specific cases, such expenses are be capitalized.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Sweden.

Role of governmental bodies in administering incentives

- ▶ Skatteverket (Swedish Tax Agency) manages the questions concerning the reduction of social security contributions for employees tasked with R&D.
- ▶ Forskarskattenämnden (Researchers Tax Commission) grants expatriate tax for foreign individuals.

Administrative requirements

The employer must submit a base of calculations for the reductions and the amount of made reductions for social security fees in the payroll tax return. The employer must be able to provide the Swedish Tax Agency with information to assure that the requirements are met if subjected to screening. This includes information concerning the number of working hours, the number of working hours dedicated to R&D, and information about the specific R&D work performed by each individual employee.

The employee or employer may submit the application to the Researchers Tax Commission to be granted expatriate tax for foreign key personal or scientists. The application must have

been received by the Researchers Tax Commission no later than three months from the date when the employee started working in Sweden.

Statutory reference

- ▶ The right to reduction of social security contributions is effective as from 1 January 2014 and can be found in the Social Security Contributions Law, chapter 2, paragraphs 29 and 31.
- ▶ The legislation regarding the expatriate tax regime is effective since 2001 and can be found in the Swedish Income Tax Act, chapter 11, paragraph 22-23 a.



Switzerland

Switzerland

This chapter is based on information current as of 25 June 2014.

EY contacts:

Martin Huber
martin.huber@ch.ey.com
+41 58 286 61 20

Matthias Britsch
matthias.britsch@ch.ey.com
+41 58 286 65 37

Overview

R&D is essential for innovation and a strong economic foundation which can continually grow. The global competition for the most attractive research location has greatly intensified, and using targeted research and innovation policy, Switzerland is trying to further increase its location quality. Various tax incentives are available.

Switzerland has several incentives to lower R&D costs and investments for companies. This includes Financial Contributions (grants), Tax Holidays and Reduced Tax rates on royalties (flat statutory corporate income tax rate of 9.7%). In general the Swiss corporate income tax rate is relatively low compared to other countries (see effective corporate income tax rate below).

Effective corporate income tax rate for ordinary taxed companies

Swiss taxes are deductible. Therefore the statutory tax rates have to be distinguished from the effective tax rate. However the effective tax rates in Switzerland for ordinary taxed companies on the level of federal, cantonal and communal corporate income tax amount from 12.32% to 22.79%.

2014 tax rates

Standard VAT rate

General rate	8%
Certain items	3.8%, 2.5%

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Double deductions	<input type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	
Reduced Tax rates for licence Income (Licence Box)	<input checked="" type="checkbox"/>

Incentives available

Names of incentives	Financial contributions	Tax holidays	Licence Box
Types of incentives	<ul style="list-style-type: none"> ▶ Contributions to investment costs ▶ Contributions to investment costs, repayable on an interest-free basis, subject to conditions 	<ul style="list-style-type: none"> ▶ Relief from capital and profit taxes at federal, cantonal and communal level for a maximum of 100% for maximum ten years for one legal entity 	<ul style="list-style-type: none"> ▶ A reduced corporate income tax rate for net licence income from the use of intellectual property

Names of incentives	Domiciliary and mixed companies	Accelerated depreciation on assets
Types of incentives	<ul style="list-style-type: none"> ▶ The profits derived by these companies from non-Swiss sources are taxed at substantially reduced rates at the cantonal/communal level 	<ul style="list-style-type: none"> ▶ Possibility to account a one-off depreciation under certain conditions (depend on different cantonal practices)

Financial contributions/ cash grants

Description of benefits

To facilitate and accelerate the realization of projects, several Cantons in Switzerland provide financial contributions of creditable investments.

Guidelines around incentive applications

The beneficiary must fulfil various operational conditions (e.g., innovative project, export-oriented, maintenance and creation of jobs) and project-related conditions (e.g., new innovation of the company, national or international target markets, economic importance for the respective Canton). The objective is also to guarantee sustainable development of the company.

Tax holidays

Description of benefits

Various Cantons may grant Tax Holidays for important expansion projects of an existing company or with respect to the new establishment, where such projects are of major economic importance to the respective Canton. Such economic importance is basically given if new jobs are derived and capital investments are delivered via such development or establishment projects. In the case of reorganizations, the respective Canton may grant a Tax holiday if the company can demonstrate that such reorganization is necessary for the maintenance of jobs and that investments in the Canton will be realized.

The Tax Holiday is granted on the corporate income tax and capital tax on a cantonal and communal level. However, if the company is founded in certain areas in the Cantons of Berne, Luzern, Uri, Glarus, Solothurn, St. Gallen, Graubünden, Tessin, Wallis, Neuenburg and Jura, a Tax holiday on a federal level can also be obtained. In any case there is a maximum available relief of 100% for a maximum of 10 years. Additionally, the real estate transfer tax triggered by the change of ownership may also be waived on purchases of real estate or industrial land, depending on the cantonal practices, which can vary.

Guidelines around incentive applications

A Tax holiday at the federal level is restricted to certain defined areas in the Cantons of Berne, Luzern, Uri, Glarus, Solothurn, St. Gallen, Graubünden, Tessin, Wallis, Neuenburg and Jura. Furthermore it can only be obtained if the respective Canton grants a Tax holiday in the same amount (percentage and time period). As a consequence, the cantonal authorities should be addressed first.

However, the quantity of Tax holidays depends on the investments of the company and creation or maintenance of new employment in the respective Canton. The newly created or maintained jobs will also be taken in account as an investment based upon the amount of their average salary. As a general rule the tax reduction due to the Tax holiday must not exceed 50% of the investments (practices of the Cantons may vary).

For the cantonal and communal Tax holiday the respective administrative office for economic development is the competent authority, together with the cantonal tax authority. The federal Tax Holiday is assessed by the State Secretariat for Economic Affairs (SECO).

An application for a Tax holiday must be made. The application includes fundamental documentation related to capital budgeting, future employment and a detailed business plan.

The final decision on the granting of a Tax holiday is linked to a certain terms and conditions during and after the time period of the Tax holiday. Typically the company has to report that it implemented the promised investments according to its business plan during the period of the Tax holiday. Furthermore, the company is obliged to continue its business activity for a defined length of period.

Licence Box

Description of benefits

The cantonal tax authority of Nidwalden has implemented benefits on net royalty or so-called net licence income from the use of intellectual property. Licence income is defined as payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic, or scientific work, including cinematograph films, any patent, trademark, design or model, plan, secret formula or process, or for information concerning industrial, commercial, or scientific experience. The capital gains on the disposal of such intellectual properties also qualify for the licence box. The term further includes income arising from the use of intellectual property among affiliated companies. The incentive for net licence income from the use of intellectual property is a fixed statutory corporate income tax rate of 9.7%.

Guidelines around incentive applications

The definition of income from eligible intellectual property rights is identical to Art 12 (2) of the OECD Model Convention. Only legal entities with a registered office or subsidiary in the Canton of Nidwalden may make use of the Licence Box rules. For tax assessment purposes, a breakdown of income and costs by segment/source must be drawn up. This must be enclosed with the tax return.

Reduced tax rates/preferable tax rates: domiciliary and mixed companies

Description of benefits

For cantonal and communal taxes, the following tax rules apply to domiciliary and mixed companies (effective tax rate on federal level of 7.9% remains):

- ▶ Income derived from a qualifying participation (10% of the share capital, 10% of the profit and reserves or fair market value of CHF1 million), including capital gains resulting from step-ups in the tax basis of such investments, is exempt from tax.
- ▶ Income derived from Swiss sources not described in the item above is taxed at ordinary effective corporate income tax rates (this rule applies only to mixed companies because domiciliary companies do not derive Swiss source income).
- ▶ Income derived from non-Swiss sources is also taxed at ordinary rates.
- ▶ However, the tax base is substantially reduced by the application of rules that take into account the significance of administrative activities performed by the Swiss company (this depends on the intensity of its physical presence in Switzerland and the level of its economical affinity to Switzerland).

As a result of these rules, approximately 10% to 30% of the non-Swiss income is subject to the ordinary effective corporate income tax on a cantonal and communal level, while the remaining non-Swiss income is exempt.

Guidelines around incentive applications

Domiciliary and mixed companies are those primarily engaged in activities abroad. The profits derived by these companies from non-Swiss sources are taxed at substantially reduced rates at the cantonal/communal level. Domiciliary and mixed companies may be used for sales, financing, holding of intellectual property and other activities which focus primarily on non-Swiss markets. However, at the federal level these companies are usually taxed at an ordinary corporate income tax of 7.9%. A special relief may be achieved in special cases for so-called principal companies.

Accelerated depreciation on assets

Description of benefits

The method of depreciation should be in line with usual business practices basically. However, the tax authorities in Switzerland have published the rate of depreciation which is usually acceptable and therefore treated as business related expense. Some Cantons provide the possibility to account a one-off depreciation under certain conditions (depend on different cantonal practices).

Eligibility requirements

Financial contributions and Tax holidays

Corporate requirements

- ▶ A growth strategy, in the ideal case affiliated with an innovative and/or export oriented project
- ▶ The overall financing and long-term sustainability is guaranteed
- ▶ Retaining and creating jobs
- ▶ Sustainable corporate development

Project-related requirements

- ▶ Innovativeness of the line of business
- ▶ National and international target markets and no distortion of competition
- ▶ Economic importance for Switzerland
- ▶ Planned investments in research, technology, facilities etc.

Specific requirements for Tax holidays

- ▶ Existing company must require reorganization
- ▶ Early contact with the responsible project manager of the economic promotion department is necessary
- ▶ A business plan is required
- ▶ A statement of the respective cantonal tax authorities and the local community is required
- ▶ In certain Cantons a resolution by the cantonal government is required
- ▶ Capital investments and maintenance or creation of employment is required

▶

Licence Box

- ▶ A significant operational infrastructure (company-owned/ company-occupied offices, qualified personnel, etc.) must be located at the registered office or subsidiary of the legal entity.
- ▶ The legal entity must provide evidence of the licence income subject to taxation by means of the relevant licence agreement.
- ▶ Payments for so-called milestones are recognized as licence income, if they can actually be assigned to a usable intellectual property or right at a later point in time.
- ▶ If at least 90% of the total gross income is derived from licence income, and if the other gross income not derived from licence income does not exceed CHF50,000, a segment accounting statement can be dispensed with. If licence income amounts to less than CHF 50'000, a simplified breakdown is sufficient. In that case, the financing costs, administrative expense and taxes can be deducted at a flat rate of 25%.

Technology or innovation zones

As mentioned above in Section "Tax holiday," a federal income tax holiday can only be obtained in certain zones in the Cantons of Berne, Luzern, Uri, Glarus, Solothurn, St. Gallen, Graubünden, Tessin, Wallis, Neuenburg and Jura.

Obtaining a ruling

The Swiss Tax Authorities are cooperative in obtaining a tax

ruling. However, it is very common in Switzerland to provide the tax authorities with the relevant background information and the corresponding tax consequences by a written application. The Swiss tax authorities will then review the proposed tax appraisal and if they agree show the (pre-)approval by counter-signature. Such procedure provides certainty for several years with regard to the envisaged settlement and/or reorganization, etc. for both parties (tax payer and tax authority).

Administrative requirements

The Financial Contribution, Tax Holidays and the Licence Box require a request at the respective cantonal (and if applicable) federal authorities. After the incentive is granted, the competent authority monitors the course of the project and the development.

Statutory reference

- ▶ Financial Contributions: Cantonal legislation and published (or non-published) practices
- ▶ Tax Holiday: Cantonal legislation and published (or non-published) practices
- ▶ Licence Box: Cantonal Tax Law of the Canton of Nidwalden and the guidelines on Taxation of Licence Income of the cantonal tax authorities of Nidwalden



Thailand

Thailand

This chapter is based on information current as of 15 March 2014.

EY contacts:

Yupa Wichitkraisorn
yupa.wichitkraisorn@th.ey.com
+662 264 9090

Pathira Lam-ubol
pathira.lam-ubol@th.ey.com
+662 264 9090

Overview

The Thai Government strongly encourages research and technology invention to enhance the economy and aims to attract foreign investors by providing R&D incentives to both approved Thai R&D service providers and Thai R&D service users. Currently a 200% deduction and accelerated depreciation rate of 40% are available for eligible expenditure incurred on R&D activities carried out in Thailand. In order to receive the Thai R&D service provider status, companies or government entities must obtain approval from the Revenue Department.

The Government also provides tax holidays and non-tax incentives, and the companies providing eligible R&D services may also be entitled to incentives (i.e., tax and non-tax incentives) granted by the Board of Investment (BOI).

There is also financial support available from the National Science and Technology Development Agency (NSTDA) in the form of soft loans.

2014 tax rates

Top corporate income tax rate (federal and state average)	20% ¹
Standard VAT rate	7% ²

¹ The rate has been reduced from 30% to 20% for the accounting period from 1 January 2013 to 31 December 2014, put in place by Royal Decree No.530 B.E. 2554 – Reduction of corporate income tax rate.

² Revenue code – Thai VAT law.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Double deductions	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D double deduction incentive	Accelerated depreciation	Board of Investment (BOI) tax incentive*	BOI non-tax incentive	Soft loans
Types of incentives	<ul style="list-style-type: none"> ▶ Double deduction 	<ul style="list-style-type: none"> ▶ Accelerated depreciation on qualifying R&D assets 	<ul style="list-style-type: none"> ▶ Tax holiday 	<ul style="list-style-type: none"> ▶ Non-tax incentives 	<ul style="list-style-type: none"> ▶ Loans

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

R&D double deduction incentive

Description of benefits

A 200% tax deduction is available for eligible expenditure on R&D activities carried out by Thai R&D service providers in Thailand. Thai R&D service providers are companies or government entities that perform eligible R&D activities. To qualify for the Thai R&D service provider status, an entity must seek approval from the Revenue Department. Any losses incurred from the R&D double deduction may be carried forward for five consecutive years.

Guidelines around incentive applications

The R&D double deduction is applicable for current and future investment. The claim of R&D double deduction incentive is based on a self-assessment. To claim the incentive, companies are required to file a Form PND.50 within 150 days from the last day of an accounting period.

Accelerated depreciation

Description of benefits

An accelerated depreciation rate of 40% is available on the total acquisition cost of machinery and related equipment used in an R&D project and is applicable from the acquisition date. Any losses incurred from the accelerated depreciation may be carried forward for five consecutive years.

Guidelines around incentive applications

The depreciation is applicable to current and future investments. Claiming the R&D double deduction incentive is based on a self-assessment process. Companies claiming the incentive are required to file a Form PND.50 within 150 days from the last day of an accounting period.

BOI tax incentive

Description of benefits

Under the BOI tax incentive, companies may receive benefits as follows:

- ▶ Exemption of corporate income tax (unlimited amount) for eight years, regardless of BOI zones
- ▶ Double deduction on expenses related to transport, electricity and water supply
- ▶ Exemption or reduction of import machinery , regardless of BOI zones³
- ▶ Exemption of import duty on raw or essential materials used in the manufacturing of export products

Any losses incurred during the BOI tax exemption period can be used to offset against the net taxable profit for up to five consecutive years after the tax exemption period. In order to receive the BOI tax incentive, an application must be submitted to the BOI for approval. Companies are also required to provide a description of the scope of the R&D process, the number of researchers, their qualifications and R&D experience.

Guidelines around incentive applications

The BOI tax incentive is applicable to current and future investments. Claiming the R&D double deduction incentive is based on a self-assessment. Companies claiming the incentive are required to file a Form PND.50 within 150 days from the last day of an accounting period.

³ There are three BOI zones in Thailand based on economic factors with earnings and primary facilities as criteria of each province.

BOI non-tax incentive

Description of benefits

With the BOI non-tax incentive, companies may receive benefits as follows:

- ▶ Unlimited number of visas and work permits for qualifying expatriates
- ▶ Eligibility to own land⁴
- ▶ No foreign ownership restriction⁵
- ▶ Eligible to remit money in foreign currency⁶

Guidelines around incentive applications

The BOI non-tax incentive is applicable to current and future investments. To claim the BOI non-tax incentive, the company must receive approval on its eligibility from the relevant authorities such as the Land Department, Ministry of Commerce and Bank of Thailand.

⁴ Generally, a foreign investor is not eligible to own land under the Thai Land Code. However, the BOI-promoted company is able to own land for BOI business regardless of the percentage of foreign shareholder.

⁵ Companies majority-owned by foreigners are not required to seek for an approval from the Ministry of Commerce in order to do business in Thailand.

⁶ Under the foreign-exchange regulation, the Thai incorporated company is required to remit money in Thai currency; however, the BOI provides this incentive to a BOI-promoted company

Soft loans

Description of benefits

Companies engaged in an R&D project can receive a soft loan of up to THB30 million (but not more than 75% of investment) from the National Science and Technology Development Agency (NSTDA). In order to receive soft loans, the R&D project should be related to product or production process development, reverse engineering, and the building or refurbishing of laboratories. Companies applying for a soft loan must be Thai-majority-owned companies and qualified as a small and medium enterprise (SME). In addition, the NSTDA must approve the R&D activity. The period of loan repayment is seven years starting from the first loan received.

Guidelines around incentive applications

The soft loan is applicable to current and future investments. The NSTDA and the financial institutions must consider and approve the grant of soft loans.

Eligibility requirements

Qualifying R&D activities are defined as follows:

- ▶ Basic research – theoretical or operational activities that are conducted to explore new knowledge from basic natural phenomena and factual observation, without initially considering the application
- ▶ Applied science – research to explore new knowledge with an objective to put it into practice for specific use
- ▶ Experimental development – a systematic operation based on the knowledge from research and/or experience with the objective of producing new materials, products or inventions; to install new procedures, systems and services; or to substantially improve the existing products

Eligibility requirements for specific incentive types are as follows:

R&D double deduction incentive

The R&D double tax deduction is available only for payments to eligible Thai R&D service providers. In order to qualify as a Thai R&D service provider, a company should be engaged in basic research, applied science and experimental development activities, and must receive approval from the Revenue Department.

R&D incentives and accelerated depreciation

- ▶ Only payments made to R&D service providers, which must be companies or government entities approved by the Revenue Department, are eligible.
- ▶ R&D activities must qualify as basic research, applied science or experimental development.

BOI tax incentives

- ▶ The BOI application must be submitted to the BOI for approval, along with a description of the scope of the R&D process, the number of researchers, their qualifications and R&D experience.
- ▶ R&D service providers that are BOI-approved must strictly comply with any conditions attached to the BOI certificate.

Soft loans

Soft loans for R&D projects will be available to support qualified costs, including salary costs, consultancy costs, expenditures incurred directly on R&D materials, and general overhead expenditure related to the R&D project.

- ▶ To apply, the companies must be Thai-majority-owned and qualify as a small and medium enterprise (SME) with registered capital not more than THB 200 million and with a maximum of 200 employees.

- ▶ Larger companies may be able to qualify for this grant on case-by-case basis.
- ▶ The companies must never receive other government financial support for the same R&D project.

IP and jurisdictional requirements

There are no jurisdictional requirements related to IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in Thailand.

Role of governmental bodies in administering incentives

Claims for R&D double deductions may be reviewed by the Thai tax authority as part of its tax investigations or audits. The relevant Government agencies are as follows:

- ▶ Accelerated depreciation: Revenue Department
- ▶ BOI tax incentive: BOI
- ▶ BOI non-tax incentive: BOI
- ▶ Soft loans: NSTDA and Thai financial institutions

Administrative requirements

The R&D double deduction is a self-assessment regime. Companies have 12 months from the end of the accounting period in which the expenditure was incurred to file the claim with the Revenue Department.

For BOI tax incentives, the BOI application must be submitted to the BOI for approval, along with a description of the scope of the R&D process, the number of researchers, their qualifications and R&D experiences. R&D service providers that are BOI-approved must strictly comply with any conditions attached to the BOI certificate.

No preapproval is required for foreign-majority-owned companies to claim double deductions on the cost of engaging approved R&D service providers.

Statutory reference

- ▶ Royal Decrees No.297 B.E. 2539 - Corporate income tax special treatment (Research and development expenses)
- ▶ Royal Decrees No.145 B.E. 2527 - Depreciation of assets
- ▶ Investment Protection Act B.E. 2520



Turkey

Turkey

This chapter is based on information current as of 15 March 2014.

EY contact:

Serdar Altay
serdar.altay@tr.ey.com
+90 212 368 51 87

Kutay Gün
kutay.gun@tr.ey.com
+90 212 368 5373

Overview

In recent years, many regulations have been introduced to increase competitiveness and economic development in Turkey. These regulations intend to encourage R&D and human resource investments (i.e., investments in researchers and scientists) with the ultimate aim of reinforcing technological development level of the country.

The first regulation introduced for the R&D incentive regime was Law no. 4691 (for Technology Development Regions) which became effective in 2001. Furthermore, the R&D reduction regime was added to the Corporate Tax Code in 2004 (Law no. 5746) to support R&D activities. The regime became effective on 1 April 2008 and is designed to provide reductions, exemptions, supports, and other incentives to taxpayers carrying out eligible R&D activities. In addition, Law no. 5746 allows for the R&D deduction, income tax withholding incentive, social security premium support, and a stamp duty exemption to taxpayers with eligible R&D activities.

2014 tax rates

Top corporate income tax rate (national and local average)	20% ¹
Standard VAT rate	18% ²

¹ Article 32/1 of Turkey Corporate Tax Code. No. 5520.

² Article 28 of Turkey VAT Code No. 3065.

Types of incentives

Tax credits	<input type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input checked="" type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input checked="" type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	R&D expense deduction	Technology Development Zone (TDZ) incentives	Cash grants	Income tax withholding incentives	Social security premium support	Stamp duty exemption
Types of incentives	▸ Super deduction	▸ Tax exemption	▸ Cash grants	▸ Income tax withholding incentives	▸ Reduced social security contributions	▸ Tax exemptions

R&D expense deduction

(Ar-Ge İndirimi)

Description of benefits

Taxpayers are granted the R&D expense deduction incentive mainly in two ways: through R&D centers and R&D and innovation projects. The R&D expense deductions through both types are applied against the CIT base and taxpayers may deduct 100% of R&D expenditures from the CIT base. In addition, taxpayers can take advantage of depreciation at a rate of 20% for five years for the R&D asset. Any amount that could not be deducted due to insufficient profit in the related period may be carried forward indefinitely. To receive the R&D deduction through the R&D center, a company must employ a minimum of 50 full-time-equivalent personnel. If the R&D center employs 500 or more full-time-equivalent R&D personnel, half of the increase of the R&D and innovation expenses of the current year (comparing to the previous year) is also considered within the scope of the R&D reduction. Under Law No. 6518, dated 19 February 2014, the Council of Ministers may decrease the minimum number of R&D personnel required for establishing an R&D Center from 50 to 30. Except for the benefits and services received from third parties, there is no limitation of R&D expenses that are in allowed with the provisions of the law and regulation. Benefits and services received from third parties may not exceed 20% of total R&D and innovation expenses.

Guidelines around incentive applications

The R&D deduction is applicable for current investments. The amounts of R&D deduction calculated over the expenses incurred as of the advance tax periods of the taxpayer can be deducted from the income in the tax return of the related

advance tax period.³ The final and certain amounts of R&D deduction are calculated at the end of the year and deducted from the income in the corporate tax return, which can be submitted to the tax office until 25 April (fourth month following the month the fiscal period ends).

Cash grants

(Hibe Destekleri)

Description of benefits

The Scientific and Technological Research Council of Turkey (TÜBİTAK) provides up to 60% in a cash grant to certain portions of the eligible R&D expenses. Preapproval from TÜBİTAK is required to obtain the cash grants. Cash grants are not subject to corporate tax provided that the cash grant amount is recorded to a "fund" account in the balance sheet. R&D expenditures corresponding to this fund amount cannot be used as deduction from corporate tax base.

Guidelines around incentive applications

The cash grant is applicable for current investments. Companies that will benefit from cash grants for their R&D projects are obliged to submit a financial report to TÜBİTAK, and tax returns are not used in order to benefit from cash grants. The financial report, consisting of the expense forms, documents and necessary attachments related to the supported projects, other supporting forms and complementary financial documents are

³ Statutory due dates for filing the advance tax returns in Turkey are as follows: Q1 – 14 May 2013, Q2 – 14 August 2013, Q3 – 14 November 2013, Q4 – 14 February 2014.

submitted to TÜBİTAK by 30 September (following the first financial period) and by 31 March (following the second financial period), respectively.⁴

Income tax withholding incentives

Description of benefits

Income tax calculated on wages earned by the R&D and assisting personnel shall be cancelled at a rate of 90% for personnel with PhD degrees and of 80% for other personnel by deducting from the tax accrued over the withholding tax return to be submitted. To be accepted as an R&D center, a company must employ a minimum 50 full-time-equivalent personnel in quarters (the advance taxation period). When the advance taxation period condition is violated, the income tax withholding incentive will not be applicable:

- ▶ In cases where the project is terminated or where project support has ended, as of the termination date, the R&D and innovation activities will also be deemed to have been ended.
- ▶ In cases where the R&D center did not employ 50 full-time-equivalent personnel in the advance taxation period, the incentive will not be applicable.

The number of full-time-equivalent support staff that benefit from the incentives for income tax withholding may not exceed 10% of the total number of full-time R&D staff. Fractions in calculations are rounded up to the whole number. If the full-time-equivalent number of support staff exceeds 10% of the total number of full-time R&D staff, the staff to benefit shall be determined by starting from the wage of the support staff member with the lowest gross wage. If the wages of those within the scope of benefit are equal, the determination shall be performed by the employer. A preapproval process is required to obtain the incentive.

Guidelines around incentive applications

The incentive is applicable for current investments. 90% (PhD) and 80% (others) of the income tax calculated over the wages of R&D and support staff, shall be cancelled by deducting from the tax accrued over the withholding tax return to be submitted. Withholding tax return is submitted until 23rd of the month in which follows the month the wages are paid (for example, withholding tax return related to July is submitted until 23 August).

Social security premium support

(Sigorta Primi Desteği)

Description of benefits

For R&D and support personnel who work in the R&D center on R&D and innovation projects, half of the employer's share of the insurance premium calculated on the wages such personnel are entitled to in return for their work is paid from the allowance, which will be set aside for each employee in the budget of the Ministry of Finance for five years.

The full-time-equivalent support personnel who benefit from the employer share insurance premium cannot exceed 10% of the number of total full-time R&D personnel. If the number of the support personnel exceeds 10% of the total full-time R&D personnel, the insurance premium employer's share incentive is applied starting from the wage of the support personnel member with the lowest gross salary. If the gross salaries are the same, the support personnel to benefit from the insurance premium employer's share incentive shall be determined by the employer. Preapproval is required in order to receive the support.

Guidelines around incentive applications

The incentive is applicable for current investments. Tax returns are not used in order to benefit from social security premium support. Social security premium support may be applied to premiums accrued due to the monthly premium and service documents issued in the scope of Law no. 5510. Monthly premium and service documents are submitted until the 23rd of the month that follows the month the wages are paid.

Stamp duty exemption

(Damga Vergisi İstisnası)

Description of benefits

A range of documents (e.g., contracts and payroll slips) issued in relation to R&D and innovation activities (including the documents issued for the wage payments made to R&D personnel) are exempt from stamp tax. For applying the stamp tax exemption, list approval from the authorized Government entities (i.e., TÜBİTAK) is sufficient.

⁴ In general, the financial reports are prepared for two periods (i.e., 1 January-30 June (1st period) and 1 July-31 December (2nd period)).

Guidelines around incentive applications

The incentive is applicable for current investments. The wages of R&D and support staff are exempted from stamp tax, and the amounts of exemption are not shown in the withholding tax return in any separate section. For the other documents regarding R&D activities, it is sufficient to deliver the list determining and supporting performed transactions in scope of the R&D activity confirmed by the applied public institution and foundation to the institutions and foundations carrying out transactions during the transaction in order to implement stamp duty exemption.

Eligibility requirements

Qualifying activities include:

- ▶ Obtaining new technical information for the development of science and technology with the aim of clarifying the ambiguities in scientific and technological fields
- ▶ Developing new products, materials, supplies, devices, equipment, procedures and systems through new methods and producing new techniques and prototypes through design and drawing studies
- ▶ Performing software activities based on new and original designs
- ▶ Researching and developing new productions, methods, processes and procedures
- ▶ Researching new techniques/technologies that decrease the cost of a product while increasing its quality, standard or performance
- ▶ Measuring the usability of the products obtained during the phase of final product formation and testing them within and outside of the enterprise and making necessary adjustments

Expenses that are considered within the scope of R&D and innovation activities:

- ▶ Raw material and supplies expenses
- ▶ Depreciation
- ▶ Personnel expenses (i.e., salaries and wages)
- ▶ General expenses
- ▶ Benefits and services obtained from the outside (cannot exceed 20% of total R&D and innovation expenses)
- ▶ Taxes, duties and charges that are directly related to R&D activities

The incentives are not limited to specific industry or entity.

IP and jurisdictional requirements

The IP that emerges at the end of the R&D project can also be registered or owned abroad. However, in order to benefit from the R&D incentives, R&D activities should be performed in Turkey.

Technology or innovation zones

In Turkey, 52 Technology Development Zones (TDZs) have been declared, and 38 of them have been opened to active business. TDZ incentives (Teknoloji Geliştirme Bölgeleri Teşvikleri) are provided to businesses operating in the TDZs. The incentives provide either R&D expense deduction (R&D incentives) or tax exemption from corporate tax and VAT for income derived from R&D and software activities in TDZs. If the R&D deduction is applied, then VAT or income tax exemption can not be utilized. Also, an R&D center cannot be established in a TDZ. To benefit from R&D deduction in a TDZ, there must be an R&D project approved by TÜBİTAK. A preapproval is required in order to receive the incentives in TDZ. Other forms of support for R&D activities in TDZs are income tax exemption, stamp tax exemptions and social security premium support for R&D personnel wages.

Role of governmental bodies in administering incentives

Entities wishing to receive R&D center certificates should prepare an application including the information and documents required by the Republic of Turkey Ministry of Science, Industry and Technology. Entities that do not have R&D center certificates should obtain approval from TÜBİTAK or other authorized Government institutions for R&D projects in order to benefit from R&D deduction. TÜBİTAK also provides cash grants for R&D projects. In order to benefit from TDZ incentives, taxpayers working in software engineering and R&D in the region must apply to the Ministry of Finance.

Administrative requirements

In order to receive the R&D incentives through R&D projects, taxpayers should have an R&D center certificate or obtain approval from TÜBİTAK or other authorized Government institutions.

To benefit from the incentives, the R&D activity should satisfy the criteria below, provided by the tax regulations.

R&D expense deduction

Entities that would like to receive an R&D center certificate should prepare an application including the information and documents required by the Republic of Turkey Ministry of Science, Industry and Technology. Entities are required to receive an approval from TÜBİTAK or other authorized Government institutions for new R&D activities in order to receive the R&D expense deduction on a project basis. Documents related to the process of the R&D and innovation projects conducted within R&D centers and R&D projects should be submitted to the affiliated tax offices with annual income and corporate tax returns to benefit from the R&D deduction. Expenses made within R&D centers or R&D projects and included in the R&D deduction should be certified by a sworn-in certified public accountant.

TDZ incentives

In order to receive the TDZ incentives, taxpayers must apply to the Ministry of Finance. For information purposes, they must attach documentation proving the employment of the taxpayers in the region and their fields of occupation to the application. The associated entrepreneurs must provide the Ministry of Finance with a list approved by the managing company of all the researchers, software engineers and R&D personnel that it employs, with descriptions of their functions, attributes and duration of their employment on the R&D projects, on a monthly basis.

Cash grants

There are two main phases of the operation of cash grants provided by TÜBİTAK:

- ▶ The application and evaluation phase: The company applies for the project. The project is then accepted for preliminary examination by a TÜBİTAK expert and sent to independent examiners who will prepare evaluation reports. Upon completion of evaluation reports, the relevant technology group committee discusses the project proposal in order to grant a final decision of acceptance or rejection.
- ▶ The monitoring and granting phase: for accepted projects the project agreement is signed by the company and TÜBİTAK. Afterwards, the company is required to send performance and expense reports to TÜBİTAK semiannually during the project. The company's expenses are examined and approved by a sworn-in certified public accountant. The project performance is examined by independent examiners. The accepted amount of expenses is multiplied by the program's grant ratio, and the respective amount of grant is deposited to the company's account.

Cash grants are not subject to corporate tax provided that the cash grant amount is recorded to a "fund" account in the balance sheet. R&D expenditures corresponding to this fund amount cannot be used as deduction from corporate tax base.

Income tax withholding incentives

In R&D centers, the income tax withholding incentive will be benefited from as of the date when the R&D center certificate is issued. For R&D and innovation projects supported by public bodies and foundations established by law or international funds, or managed by TÜBİTAK, it is as of the date when the support decision letter is issued or when the project contract is enforced. 100% of R&D personnel wages is exempted from income tax withholding in TDZs, which is 80% to 90% in R&D centers.

Social security premium support

As long as the income tax exemption is applied for personnel who are actually working and whose wage is exempt from the income tax within the scope of the Law no. 4691, half of the insurance premium employer's share calculated over the exempted wage amounts will be paid from the allowance to be contributed to the budget of the Ministry of Finance for five years for each employee.

Stamp duty exemption

To apply stamp tax exemption, it is sufficient to submit the list – approved by the public institution for R&D centers and pre-competition cooperation projects and by TÜBİTAK for R&D and innovation projects supported by international funds or carried out by TÜBİTAK – to institutions and organizations that conduct the transactions, such as notary, state offices, other public institutions and organizations during the transaction.

Statutory reference

- ▶ R&D expense deduction, income tax withholding incentives, social security premium support and stamp duty exemption:
 - ▶ Statutory reference: Law no. 5746 on Supporting Research and Development Activities
 - ▶ Year of statutory regime: The law became effective on 1 April 2008 to be in force until 31 December 2023.
- ▶ TDZ incentives
 - ▶ Statutory reference: Law no. 4691 on Technology Development Zones
 - ▶ Year of statutory regime: This law became effective on 6 July 2001, and the tax incentives granted to the taxpayers with this law are valid until 31 December 2023.
- ▶ Cash grants (provided by TÜBİTAK)
 - ▶ Statutory reference: TÜBİTAK Regulation on Technology and Innovation Support Programs
 - ▶ Year of statutory regime: 1995



United Kingdom

United Kingdom

This chapter is based on information current as of 22 April 2014.

Overview

Available incentives include R&D tax relief, an R&D tax credit and an R&D allowance (for capital expenditure). Incentives are also available in order to reduce the corporation tax rate of qualifying income received from qualifying patents.

R&D tax relief is currently available for large companies as an enhanced deduction of 130% for companies that incur qualifying expenditure in resolving technological and scientific uncertainties. From 1 April 2013 large companies can make an irrevocable election to file Research and Development Expenditure Credit (RDEC) claims. A 10%¹ tax credit is available for qualifying expenditure. There are also patent incentives available to claim from 1 April 2013 for profits associated with qualifying patents.

SMEs are eligible to claim a more generous enhanced deduction. The criteria for qualification as an SME, however, are complicated. To qualify as an SME, a company must have fewer than 500 employees, an annual turnover not exceeding €100million or an annual balance sheet total not exceeding €86million, and no more than 25% of the company share capital owned by large enterprises. Other specific circumstances can prevail, but this is a particularly complex area of legislation.

An R&D capital allowance is available for capital expenditure incurred on R&D assets. A first year allowance of 100% is available in relation to qualifying expenditure. This allowance is set out within section 437 of the Capital Allowances Act 2001.

The UK tax authorities typically play a helpful role in the claim and audit process, and as such these incentives are considered something taxpayers should be taking advantage of. The incentives are treated the same as any other tax rules; they are strictly enforced and audited like other expenses. The tax authorities may audit the expenditure incurred and the eligibility of the activities undertaken.

The UK R&D regime is a mature scheme. Companies have been eligible to claim under the large company scheme since 1 April 2002, and the SME regime commenced in 2000.

The corporation tax rate within the UK is 23%, for expenditure incurred after 31 March 2013, but will fall to 21% for expenditure incurred after 31 March 2014 and 20% for expenditures incurred after 31 March 2015.

¹ Finance Act 2013, Chapter 29, Schedule 15.

EY contact:

Frank Buffone

fbuffone@uk.ey.com

+44 20 7951 1991

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input checked="" type="checkbox"/>
Loans	<input checked="" type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input checked="" type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input checked="" type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

In addition to tax incentives, the UK Government and associated agencies offer a number of grant and loan schemes aimed at stimulating overall economic growth, and/or R&D in priority technology domains. These are typically implemented through scheduled open "calls" for applications, judged on a competitive basis for millions of British pounds in funding. Specific programmes include:

- ▶ Regional Growth Fund: A £3.2 billion loan and grant fund open to all to support capital and revenue investments, including R&D projects, anywhere in England, but aimed at economically challenged regions, and the creation of sustainable new jobs.

- ▶ Technology Strategy Board: An agency of the Department of Business Innovation and Skills that connects technology communities (academia, research establishments, industry), and disburses £400 million per year mainly on collaborative R&D programmes. Current priorities for funding cover High Value Manufacturing, Materials, Transport, Energy, Bioscience, Electronics, Space, and information and communication technology (ICT).

Other schemes are primarily focused on smaller companies, and start-ups.

2014 tax rates

Top corporate income tax rate (national and local average)	21% ^{2,3}
Standard VAT rate	20% ⁴

Incentives available

Names of incentives	Super deduction	Tax credits*	Research and development allowance (RDA)
Types of incentives	▶ An enhanced deduction over and above the usual corporation tax deduction	▶ A credit to operating income as a percentage of qualifying spend	▶ First year allowance on qualifying capital expenditure

* Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors.

Super deduction

Description of benefits

A Governmental allowance is available for companies that incur qualifying expenditure during the resolution of technological and scientific uncertainties. In general the R&D scheme is available for eligible revenue spending (separate large company and SME schemes are available), and the research and development allowance (RDA) scheme is available for eligible capital spend (available to all companies). The R&D incentive is currently available for large companies as an enhanced deduction of 130% (for SMEs is 200% from 1 April 2011 and 225% from 1 April 2012) of qualifying spend. This deduction is available before tax as a deduction against taxpayers' profits chargeable to corporation tax.

If the super deduction exceeds the company's tax base for that year, it may create a NOL that may be carried forward indefinitely or carried back for a period of one year. A cash refund may be obtained for SMEs making a claim if the enhanced deduction exceeds the company's tax base for that given year. The cash refund is calculated from £24.75 to £32.63⁵ cash back for every £100 of qualifying eligible expenditures.

The cash refund was previously capped at the company's total pay-as-you-earn (PAYE) and national insurance contributions (NIC) liability for the period under review, but this restriction has been removed for expenditure incurred after 1 April 2012.

² Finance Act 2012, Sections 5 and 6.

³ The main corporate tax rate for 2015 will be decreased to 20%, HM Revenue & Customs, Corporate Tax Rates.

⁴ Value Added Tax Act 1994, Section 2.

⁵ Effective as of 1 April 2012 (11% of qualifying expense and super deduction). From 1 April 2014, the rate of R&P payable tax credit for loss making SME increases from 11% to 14.5%. Consequently, this increases the cash credit payable to loss making SMEs undertaking qualifying R&D from £24.75 to £32.63 cash back for every £100 of qualifying eligible expenditures.

Guidelines around incentive applications

The super deduction is applicable to qualifying expenditure, expensed to a company's profit and loss account. The claim must be filed within two years of the end of the accounting period to which it relates, therefore companies may file amended claims up to the first anniversary of the filing deadline for the tax return.

Tax credits

Description of benefits

Large companies incurring qualifying R&D expenditure after 1 April 2013 are entitled to elect to make an R&D Expenditure Credit (RDEC) claim. This irrevocable election will replace the current enhanced deduction with a taxable credit that will be received "above the line" as a credit to a company's profit and loss account. A 10% (currently 7.7% post-tax) taxable credit is available for qualifying expenditure. The super deduction and the ATL credit schemes will run in parallel until 2016. From April 2016 onwards, the super deduction scheme will cease to exist. Under the tax credit scheme a repayable credit may be available in certain circumstances. The repayable credit is available to companies with no current year corporation tax liability.

The initial tax credit (known as the set off amount available to the company, which is calculated as 10% of the qualifying R&D expenditure) is subject to corporation tax and PAYE and NIC caps, and is also reduced by any current year corporation tax payable or other tax liabilities of the entity. There are some other restrictions but, subject to there being a positive set off amount once all restrictions have been made, a repayable credit will be available. If the PAYE and NIC caps limit the credit available, the amount it is limited by is carried forward to the next accounting period. The benefit was announced in the Finance Bill 2013 and was granted Royal Assent on 17 July 2013.

Guidelines around incentive applications

The tax credits are applicable for current investments. Claims must be filed within two years of the end of the accounting period to which they relate; therefore, companies may file amended claims up to the first anniversary of the filing deadline for the tax return.

RDA

Description of benefits

Capital expenditure on R&D attracts a first year allowance of 100% on the qualifying expenditure. This includes expenditure on plant, machinery and buildings (but not land) used for the purposes of carrying out R&D activities. The RDAs give businesses an enhanced rate of capital allowances in the accounting period in which the expense is incurred.

Guideline around incentives applications

The RDA applies to current investments and is claimed through the corporation tax return. The claim must be filed within two years of the end of the accounting period to which it relates; therefore, companies may file amended claims up to the first anniversary of the filing deadline of the tax return.

Eligibility requirements

For there to be R&D for the purpose of the tax relief, a company must be carrying on a project that seeks an advance in science or technology. The advance being sought must constitute an advance in the overall knowledge or capability in a field of science or technology, not a company's own state of knowledge or capability alone. Qualifying expenses include staff costs, externally provided workers (subcontract expenditure for SMEs only), materials used up in the R&D process (consumables), software and software licenses, and utilities (water, fuel and power) and payments to universities or other research organizations to do R&D. There is no restriction in relation to the type of industry the entity must belong to in order to make a claim.

IP and jurisdictional requirements

There is no requirement that the company receiving the R&D incentive (whether it be an R&D tax relief, an R&D tax credit or an R&D allowance) must own the intellectual property arising from the R&D expenditure. There is also no requirement that the R&D be performed within the UK in order for the expenditure to be eligible for the incentives available.

Patent box regime

IP regime rate

The patent box regime provides for an effective rate of tax of 10% on profits attributable to patents. It is applied by subtracting an additional trading deduction when calculating profits chargeable to corporation tax.

Effective date

The effective date applies to qualifying profits earned after 1 April 2013 (subject to making an election for the relevant period). Phased implementation begins from 1 April 2013, with 60% of qualifying profit eligible for the reduced rate in the first financial year, increasing by 10 percentage points per year until 100% of the qualifying income is eligible from 1 April 2017. If an accounting period falls within more than one financial year, these percentages should be apportioned accordingly.

Qualifying IP

The patent box incentive applies to granted UK or EU patents but not to other forms of IP, such as trademarks or designs, as they are perceived to be less directly linked to industrial innovation. A 30% super deduction is already available for qualifying R&D expenditure. This is available alongside the patent box incentive at the statutory rate.

Calculation of income

The regime will apply to qualifying profits after deducting certain amounts, including routine profits, and profits arising from exploitation of marketing intangibles.

The following steps determine the patent profit:

- ▶ Step 1: Determine whether the business receives qualifying income arising from qualifying patents
- ▶ Step 2: Calculate the part of the company's corporation tax profit attributable to qualifying income (pro-rated based on the portion of total trading income that is qualifying income)
- ▶ Step 3: Calculate the residual profits by deducting a fixed percentage return on routine activities from the profit determined under Step 2
- ▶ Step 4: Identify how much of the residual profit applies to patent rather than other forms of IP (e.g., calculation of a notional marketing royalty to determine profit attributable to brands)

Types of qualifying income

- ▶ Income from patent licensing and royalties
- ▶ Income arising from products that incorporate a patent
- ▶ Income from sale of patents
- ▶ Infringement income (including damages insurance or other compensation related to patent rights)
- ▶ Where a patent is exploited by a company in a process or to provide a service, a notional royalty can be calculated and treated as qualifying income.

Can work be performed outside the country?

Yes. However, the UK company must be actively involved in the ongoing decision-making connected with the use of the patent. This can take the form of either direct management by the UK company or significant involvement in group committees.

Must the IP be registered/owned locally?

To benefit from the regime, a company must own or, subject to certain conditions, be an exclusive licensee of patents granted by the:

- ▶ UK Intellectual Property Office
- ▶ European Patent Office
- ▶ The patent office in the following countries in the European Economic Area: Austria, Bulgaria, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Poland, Portugal, Romania, Slovakia and Sweden

IP and jurisdictional requirements

- ▶ The company claiming the lower rate must legally own or exclusively license the patent.
- ▶ For groups of companies, the patent may be developed by any entity within the group as it is recognized that one company in a group may own a portfolio of patents while another group company exploits them.
- ▶ The company (or another group company) must have undertaken qualifying development on the patent. This involves making a significant contribution to either the creation or development of the patented invention or a product incorporating the patented invention.
- ▶ An election must be made to benefit from the regime within two years from the end of the accounting period in which the relevant profits and income arose.

Technology or innovation zones

There are no technology or innovation zones in the United Kingdom.

Role of governmental bodies in administering incentives

Companies may file both an R&D claim and an RDA claim annually within their corporation tax returns. HM Revenue and Customs, the UK Governmental body, then reviews it. Eligibility is determined by an engineer within the company, the so-called "competent professional." HM Revenue and Customs is also responsible for reviewing patent box claims.

Administrative requirements

The claim must be filed within two years of the end of the accounting period to which it relates. Therefore, companies may file amended claims up to the first anniversary of the filing deadline for the tax return.

Statutory reference

Schedule 15, Chapter 29 of Corporation Tax Act 2009 and Part 6 s 437 of Capital Allowances Act 2001. As a recent change, the ATL credit was announced in the Finance Bill 2013 and was granted Royal Assent on 17 July 2013.



United States

United States

This chapter is based on information current as of 15 March 2014.

EY contacts:

Craig M. Frabotta
craig.frabotta@ey.com
+1 216 583 4948

David S. Hudson
david.hudson@ey.com
+1 202 327 8710

Overview

In the US, a nonrefundable tax credit is available for certain qualified research expenses (QREs) incurred in the US that exceed one of two computed base amounts. This tax credit may be used by a business to reduce its federal tax liability. There is also a deduction allowed for 100% of the costs of R&D (other than costs associated with the acquisition of depreciable property, e.g., building, equipment, etc.). The QREs eligible for the research credit are a subset of the costs eligible for the deduction, as QREs are generally measured as direct costs of R&D without including overhead costs or indirect costs. QREs generally include wage, supply, and a portion of contract costs directly.

Most of the 50 US states permit a deduction for R&D costs that is identical to the federal deduction. Around two-thirds of the states also offer a research credit for state tax purposes. Many states model their research credit on the federal credit; however, the credit is generally permitted only for QREs incurred within the state and the state credits can vary dramatically between jurisdictions. Some state credits do not require a business to increase its QREs (as the federal credit does) in order to receive a credit. Often the types of costs that qualify for the credit are different, and the percentages of QREs used to compute the credit also differ. For most businesses, their federal research credits are larger than their state research credits, but that is not always the case.

The federal research credit has always been a temporary provision in the law, and it expired at the end of 2013. Extending the credit continues to be debated at the time of writing. Since 1981, the credit has only expired for a one-year period in which it was not extended retroactively, as it has always been renewed. Generally, most state research credits are permanent.

2014 tax rates

Top corporate income tax rate (federal and state average)	39% ¹
Standard VAT rate	0% ²

¹ The Council of State Governments, The Book of the States, 2002 edition, Range of State Corporate Tax Rates. The tax rate includes the federal rate and the average of state rates (which range from 0% to 12%).

² Many state and local governments impose sales taxes.

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input type="checkbox"/>
Tax deductions (including super deductions)	<input checked="" type="checkbox"/>
Tax exemptions	<input type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input type="checkbox"/>
Tax holiday	<input type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Qualifies for Horizon 2020 funding	<input type="checkbox"/>
Other	<input type="checkbox"/>

Incentives available

Names of incentives	Research credit	Tax deduction*
Types of incentives	▶ Tax credit	▶ Tax deduction

*Although not based upon scientific analysis, EY clients report that this incentive delivers more beneficial results to investors in general, however, the results depend on the taxpayers' facts and circumstances.

Research credit

Description of benefits

Federal and state research credits for certain QREs incurred in the US may be used by a business to reduce its federal and state tax liabilities. These are statutory tax incentives with specific amounts and applicability defined in the statute at either the federal or state level. In general the federal credits are nonrefundable, while some state credits are refundable. In addition, some state credits may have the potential to be purchased or sold to the benefit of the taxpayer.

The federal research credit is designed to reward a business for an increase in its spending on research; thus, a taxpayer must determine the increment of its current-year QREs over a computed base amount in order to claim the research credit.

There are two methods for computing the research credit:

- ▶ **Regular credit:** The regular credit is computed by measuring spending as a percentage of a business's gross receipts. Thus, if a business is increasing its QREs as a percentage of gross receipts measured against a historic period, it will likely be eligible for the regular credit. The maximum cash benefit in tax savings for the regular credit is about 6.5% of a business's QREs, but the benefit may be smaller.

- ▶ **Alternative Simplified Credit (ASC):** The ASC is a much simpler way to compute the research credit. Generally, the credit is equal to 9.1% of a business's increase in QREs in the current year, over 50% of the average QREs for the prior three years.

In general, the research credit is limited to a maximum of 25% of the regular tax liability. Unutilized research credit may be carried back for one year and carried forward for 20 years.

Guidelines around incentive applications

The research credit is applicable to retroactive investments and current investments. The research credit is claimed on the original corporate income tax return by completing Form 6765 and electing either the regular credit or the ASC. It must be filed by the due date of the return with extensions. A retroactive research credit may be filed by amending the income tax return for the open year for which the credit is being claimed. In general, taxpayers may claim the incentive retroactively for three years. Unless an ASC election was made on the originally filed return for that year, only the regular credit may be used.

Tax deduction

Description of benefits

The tax deduction is permitted for 100% of R&D costs (other than costs associated with the acquisition of depreciable property) for federal and state tax purposes.

Guidelines around incentive applications

The deduction is applicable to retroactive investments and current investments. The deduction for research expenditures must be made on the originally filed income tax return. Taxpayers may claim additional deductions for research expenditures on amended returns if the taxpayer has established a method of accounting to deduct its research costs and merely erred in not deducting them on the original return. In general, taxpayers may claim the incentive retroactively for three years.

2014 Chairman Camp's tax reform proposal

On 26 February 2014, House Ways and Means Committee Chairman Dave Camp, released a comprehensive tax reform discussion draft (Draft) that, if enacted, would eliminate and modify a host of current corporate tax provisions and reduce the statutory corporate tax rate to 25%. The proposal illustrates the trade-offs necessary to significantly lower tax rates but also, through a macroeconomic analysis, achieve potential economic growth associated with tax reform. The Draft includes major changes in R&D incentives regimes as follows:

Amortization of research and experimental expenditures (Section 3108 of Internal Revenue Code)³

Under the Draft, all R&D expenditures would be amortized over a five-year period beginning with the midpoint of the tax year in which the expenditure is paid or incurred. The five-year period would continue even in the event any property with respect to which amortization deductions were made is retired or abandoned. Expenditures incurred for the development of software would be treated as R&D expenditures.

The provision would be effective for amounts paid or incurred in tax years beginning after 2014, but would be phased in slowly over several years:

▶ For tax years beginning in 2015	▶ Taxpayers could expense 60% and amortize 40% over two years
▶ For tax years beginning in 2016 and 2017	▶ Taxpayer could expense 40% and amortize 60% over three years
▶ For tax years beginning in 2018, 2019, and 2020	▶ Taxpayer could expense 20% and amortize 80% over four years

When adding together, the percentage that is permitted to be expensed in any particular year and the amortized percentages from prior years that are also available as a deduction in that particular year, the effect of this formula is to permit a deduction of at least 80% of the amount that is deductible under current law (assuming constant levels of annual investment). Alternatively, a taxpayer may elect to apply the five-year amortization rule to all R&D expenditures immediately.

³ Tax Reform Act of 2014 Discussion Draft, Committee on Ways and Means Chairman Dave Camp, http://waysandmeans.house.gov/uploadedfiles/ways_and_means_section_by_section_summary_final_022614.pdf

Research credit modified and made permanent (Section 3203 of Internal Revenue Code)⁴

Under the Draft, a modified research credit would be made permanent. The research credit would equal: (1) 15% of the qualified research expenses for the tax year that exceed 50% of the average qualified research expenses for the three tax years preceding the tax year for which the credit is determined (thus making the alternative simplified research credit (ASC) permanent), plus (2) 15% of the basic research payments for the tax year that exceed 50% of the average basic research payments for the three tax years preceding the tax year for which the credit is determined. The provision would retain the rule under the ASC that allows a taxpayer to claim a reduced research credit if the taxpayer has no qualified research expenses in any one of the three preceding tax years. The general 20% credit would be repealed, as well as the 20% credit for amounts paid for basic research and the 20% credit for amounts paid to an energy research consortium.

Under the provision, amounts paid for supplies or with respect to computer software would no longer qualify as qualified research expenses. Also, the special rule allowing 75% of amounts paid to a qualified research consortium and 100% of amounts paid to eligible small businesses, universities, and Federal laboratories to qualify as contract research expenses would be repealed (though such amounts still would qualify as contract research expenses subject to the 65% inclusion rule). In addition, the provision would repeal the election to claim a reduced research credit in lieu of reducing deductions otherwise allowed. The provision would be effective for tax years beginning after 2013, and for amounts paid and incurred after 2013.

Eligibility requirements

“Qualified research” includes research for the purpose of developing new or improved “business components.” Business components are defined as products, processes, computer software, techniques, formulas and inventions, whether held for sale or lease by the taxpayer or used in the taxpayer’s trade or business. The credit is available for in-house and contract costs incurred for qualified research. Qualified research consists of R&D activities involving a process of experimentation designed to eliminate uncertainty in the development process. The R&D must relate to the function, performance, reliability or quality of the business component and be based on engineering or on biological, chemical, physical or computer sciences.

Qualifying expenses for the federal research credit (and most state credits) are defined as taxable wages paid to employees directly involved in R&D, consumable supplies (not depreciable property) used directly in R&D and/or 65% of amounts paid to third parties for research services. Qualifying expenses for the federal and state deductions are defined as direct and an allocable portion of indirect costs for R&D.

IP and jurisdictional requirements

There is no specific jurisdictional requirement on the location of IP.

Technology or innovation zones

There are no technology or innovation zones providing R&D incentives in the US.

⁴ Ibid.

Role of governmental bodies in administering incentives

Generally speaking, the taxing authorities may audit research credits and deductions claimed by any taxpayer after the filing for the credit or deduction. Although there is no special audit or preapproval process required, there are special procedures, such as Pre-filing Agreements (PFAs), available to taxpayers who wish to have their federal research credit and/or deduction audited in advance of filing their tax returns.

Administrative requirements

As with any credit or deduction, a taxpayer must maintain business records to support credits and deductions claimed. There are no special procedures for R&D credits or deductions. No preapproval process is required for the R&D incentives.

Statutory reference

- ▶ Federal research credit: Section 41 of the Internal Revenue Code
- ▶ Federal R&D deduction: Section 174 of the Internal Revenue Code
- ▶ State credits and deductions: various provisions based on each state's statutory framework



Vietnam

Vietnam

This chapter is based on information current as of 15 March 2014.

EY contact:

Huong Vu

huong.vu@vn.ey.com

+84 4 3831 5100 (ext. 6616)

Overview

Vietnamese regulations do not provide specific incentive schemes for R&D activities. However, R&D activities are important criteria in the evaluation and qualification of projects in the high-tech sector, which is highly encouraged and incentivized by the Government. In addition, the Government encourages activities of scientific research and technological development and the application of results from scientific research and technological development of which R&D activities may be included as an important activity. Currently, the Vietnamese Government provides incentives for the high-tech sector and for science research and the technology deployment sector, through which it provides benefits of tax exemptions, financial support, reduced tax rates, and a tax holiday.

2013 tax rates

Top corporate income tax rate (national and local average)	22% ¹ (To be reduced to 20% from 1 January 2016) ²
Standard VAT rate	10% ³

Types of incentives

Tax credits	<input checked="" type="checkbox"/>
Cash grants	<input type="checkbox"/>
Loans	<input type="checkbox"/>
Reduced tax rates/preferable tax rates	<input checked="" type="checkbox"/>
Reduced social security contributions	<input type="checkbox"/>
Accelerated depreciation on the R&D assets	<input type="checkbox"/>
Tax allowance	<input type="checkbox"/>
Infrastructure/land preferential price	<input checked="" type="checkbox"/>
Tax deductions (including super deductions)	<input type="checkbox"/>
Tax exemptions	<input checked="" type="checkbox"/>
Income tax withholding incentives	<input type="checkbox"/>
Patent-related incentives	<input type="checkbox"/>
Financial support	<input checked="" type="checkbox"/>
Tax holiday	<input checked="" type="checkbox"/>
Expedited Government approval process	<input type="checkbox"/>
Value-added tax reimbursement	<input type="checkbox"/>
Other (free training)	<input checked="" type="checkbox"/>

¹ Law on Corporate Income Tax No 14/2008/QH12, Article 10.

² Law on amended CIT Law passed on 19 June 2013.

³ Law on Value Added Tax No. 13/2008/QH12, Article 8.

Incentives available

Names of incentives	Incentives for the high-tech sector	Incentives for science research and technology development*
Types of incentives	<ul style="list-style-type: none"> ▶ Reduced tax rates ▶ Tax exemptions ▶ Tax holiday ▶ Financial support ▶ Preferential land lease fees 	<ul style="list-style-type: none"> ▶ Reduced tax rates ▶ Tax exemptions ▶ Tax holiday ▶ Financial support ▶ Preferential land lease fees

*Although not based upon scientific analysis, EY clients report that this incentive delivers the most beneficial results to investors.

Incentives for high-tech sector

Description of benefits

Enterprises qualified under the high-tech sector will be entitled to the following incentives and support:

- ▶ Corporate income tax (CIT): reduced tax rate of 10% applies for 15 years (up to 30 years if approved by the Prime Minister). Companies are also entitled to four years of CIT exemption and nine years of 50% CIT deduction.
- ▶ VAT: VAT exemption applies to transfers of technology. A VAT refund is also available in some cases where the input VAT has not been credited against the output VAT.
- ▶ Exemption from import duty on imported goods to create fixed assets used in an R&D project: a tax exemption of five years is available on import duty for raw materials, materials and component parts that are not yet able to be domestically produced, for qualifying projects. An import duty refund is also available for some specific cases where goods are not subject to import tax but the tax has been paid for the importation of such goods.
- ▶ Land incentives are available: the preferential land lease fee is regulated by the local authority where the project is located.
- ▶ Funding schemes from the national high-tech development program are available for training, research and development, or trial production.

After tax is finalized at year-end, net operating losses (if any) must be carried forward totally and continuously for a maximum period of five years. Carryback of losses is not permitted. To receive the incentives, taxpayers must obtain certification from the Ministry of Science and Technology.

Guidelines around incentive applications

The high-tech sector incentives are applicable to current and future investments on a self-assessment basis. So long as the project qualifies as a high-tech project, the incentives may be applied. The company must apply for certification from the competent authority to certify that the project is a high-tech project (i.e., applying high-tech, carrying out high-tech R&D activities or being a high-tech enterprise).

The incentive rate is applied and reflected in the company's tax returns. Form No. 01A-TNDN (for provisional return on quarterly basis) or Form No. 03-TNDN (for final return on annual basis) is used to claim the incentives. Enterprises are permitted to adjust their tax declaration prior to the tax authority deciding to conduct a tax audit on the enterprises.

Incentives for science research and technology development

Description of benefits

A qualifying enterprise in the scientific research and technology development sector will be entitled to following incentives and support:

- ▶ CIT:
 - ▶ A reduced tax rate of 10% applies for 15 years (up to 30 years if approved by the Prime Minister). Companies are also entitled to four years of CIT exemption and nine years of 50% CIT deduction.
 - ▶ Income earned from performance of contracts for scientific research and technological development, from sale of products during their test production, and from products made from new technology applied for the first time in Vietnam will be exempted from CIT for one year from the date of commencement of production, test production or application of new technology.
 - ▶ Companies are permitted to use profits before tax to establish a fund for scientific and technology development within the enterprise. The amount paid into the fund may not exceed 10% of the total taxable income for the assessable tax year.
- ▶ VAT:
 - ▶ A reduced 5% VAT rate may be applied to:
 - ▶ Activities that support scientific research and technology development
 - ▶ Services related to the application of scientific research and technology development results
 - ▶ A VAT refund is available in some cases where input VAT has not been credited against the output VAT.
 - ▶ Machinery, equipment and material imported for scientific research and technology development are not subject to VAT at import stage.
- ▶ Import duty:
 - ▶ An exemption is applicable on import duty on imported goods and those directly used for scientific research and technology development.
 - ▶ An exemption is applicable on import duty on imported goods to create a fixed asset of the respective project. There is a five-year exemption of import duty on raw materials, materials and component parts that are not yet able to be domestically produced.
 - ▶ Investment projects that utilize 25% or more of their revenue for R&D activities may be regarded as an "encouraged sector" for import duty purpose.
 - ▶ An import duty refund is available in certain cases where goods are not subject to import tax but the tax has been paid for importation of such goods.
- ▶ Land incentives are available: the land lease fee is regulated by the local authority where the project is located.
- ▶ Stamp duty: stamp duty exemption applies when registering for land use right or house ownership.
- ▶ Other support:
 - ▶ Projects are entitled to a credit incentive for investment.
 - ▶ Priority is given to the use of equipment in national laboratories or research institutions.
 - ▶ Projects are entitled to free training and consulting services from a state-owned technologies institution.

After tax is finalized at year-end, net operating losses (if any) must be carried forward totally and continuously for a maximum period of five years. Carryback of losses is not permitted. To receive the incentives, taxpayers must obtain certification from the local Department of Science and Technology.

Guidelines around incentive applications

See "Applicability of incentives" under "Incentives for the high-tech sector."

Eligibility requirements

Incentives for the high-tech sector

The Ministry of Science and Technology provides a list of expenses qualified as expense for R&D activities. Qualifying expenses include expenses for building technical infrastructure for research, expenses for R&D activities and expenses for training research staff. Expenses for R&D activities include expenses related to wages, raw materials, supplies, chemicals, fuels and power in service of research.

The following expenses may not be included into expenses for R&D activities: expenses for inspection of product quality or periodical inspection of raw materials, supplies, fuel and energy; expenses for procurement of tools or products in service of production; expenses for research activities in social sciences and humanities; expenses for periodical collection of data that are not related to research; expenses for surveys on management effectiveness or research; and expenses for marketing and advertising.

Qualifying activities include activities in:

- ▶ Applying high technologies (i.e., encouraged technologies in production process)
- ▶ Manufacturing high-tech products
- ▶ Carrying out high-tech R&D activities

High-tech development investment will be encouraged in the following technological sectors:

- ▶ Information technology
- ▶ Biotechnology
- ▶ New material technology
- ▶ Automation technology

Incentives for science research and technology development

The following activities (performed by scientific research and technology development enterprises) qualify:

- ▶ Manufacture and trade of products or goods that are made as result of scientific research and technology development
- ▶ Scientific research and technology development duty
- ▶ Production and provision of other goods and services

IP and jurisdictional requirements

The IP must be registered and owned locally. An enterprise applying for certification as a scientific research and technology development enterprise must legally own or have the right to use the results of scientific research and technology development that will be used in its production.

The Ministry of Finance's Circular No. 219/2013/TT-BTC, dated 31 December 2013, guides the implementation of Law on Value Added Tax and is effective from 1 January 2014. It includes an added VAT exemption with respect to transfers of technology. In cases when a technology transfer contract exists together with a transfer of machinery and equipment, the assets shall be not subject to VAT on the technology transfer value.

Technology or innovation zones

Vietnam currently has two high-tech industrial parks: Hoa Lac High-Tech Park (located in Hanoi) and Saigon High-Tech Park (located in Ho Chi Minh).

Hoa Lac High-Tech Park

The park provides tax incentives and other support to enterprises in the high-tech sector. (Please refer to detailed benefits mentioned above for the high-tech sector.) An investment project that meets the following conditions will be considered for the Hoa Lac High-Tech Park:

- ▶ Its operational domain is a high-tech domain eligible for investment encouragement specified in Article 5 of the Law on High Tech, including:
 - ▶ Information and communication technology
 - ▶ Biotechnology
 - ▶ New material technology
 - ▶ Automation technology
 - ▶ Encouraged high-tech products are those produced from the technologies included in the list of high technologies that have priority for investment and development and must satisfy one of the following conditions:
 - ▶ Have a great added-value ratio in the value structure of products
 - ▶ Be highly competitive and socioeconomically effective
 - ▶ Be exportable or able to substitute imported products
 - ▶ Contribute to improving the national technology and science capacity
 - ▶ Expenses for R&D work under the project include:
 - ▶ Total expenses for R&D work performed in Vietnam accounting for at least 5% of annual total turnover, or expenses for R&D activities carried out in Vietnam accounting for at least 1% of annual total turnover
 - ▶ The number of laborers with a university or higher degree who are directly engaged in the project's R&D work accounts for at least 5% of the project's total number of laborers.
- ▶ The project's technological chain is at an advanced level and satisfies the following requirements: production activities are specialized and organized with automation methods, of which at least a third of automatic devices are controlled under set programs, and they are arranged in a working space that satisfies industrial sanitation standards required by Vietnamese law.
 - ▶ The project's quality management system reaches specialized international standards (e.g., ISO 9000/2001, CMM or GMP); it applies to a computerized corporate administration system.
 - ▶ The project abides by environmental standards and technical regulations in its operation domain as required by Vietnamese law. It is encouraged to apply for international environmental standards such as ISO 14000 or equivalent standards.

Saigon High-Tech Park

The park provides tax incentives and other support given to enterprises in the high-tech sector. (Please refer to detail benefits mentioned above for the high-tech sector.) An investment project that meets the following conditions will be encouraged to invest in the Saigon High-Tech Park:

- ▶ The project uses an encouraged technology:
 - ▶ Microelectronics, optoelectronics, information technology and telecommunications
 - ▶ Precision engineering and automation, robot production
 - ▶ Application of biotechnology in agriculture, health and environment
 - ▶ New materials, nano technology, new energy
- ▶ Total expenses for R&D work performed in Vietnam account for at least 1% of annual total turnover in three consecutive years and are higher than 1% from the fourth year.
- ▶ Average revenue from high-tech products in three consecutive years accounts for at least 60% of total project revenue and at least 70% from the fourth year.
- ▶ The number of laborers with a university or higher degree who are directly engaged in the project's R&D work accounts for at least 5% of the project's total number of laborers.
- ▶ A quality control system (e.g., ISO, CMM, and GMP) is applied.
- ▶ The project fully complies with Vietnam regulation on environment protection.

Role of governmental bodies in administering incentives

The role of the tax authorities (being the Provincial Tax Department where the company is located) in administering tax-based R&D incentives includes the following:

- ▶ On the receipt of an application for an Investment Certificate, licensing authorities will perform an assessment and will indicate whether the tax incentive applicable to the investment project.
- ▶ After obtaining the Investment Certificate, the enterprise will further apply to the relevant Science and Technology authority (i.e., Provincial Science and Technology Department where the company is located) for this authority to evaluate and certify that it is a high-tech project or scientific research and technology development project. This certification will be the basis for the enterprise to enjoy relevant incentives.
- ▶ For enterprises, this is a self-assessment regime (i.e., enterprises self-declare and pay tax in accordance with local regulations).
- ▶ The relevant tax authorities monitor and conduct tax audits on the tax compliance of the enterprise.
- ▶ Customs authorities (i.e., the Provincial Customs Department and the General Department of Customs) monitor and conduct customs audits on the enterprise's import duties.

Administrative requirements

Incentives for the high-tech sector

To be certified as a high-tech project and enjoy the incentives, the company has to apply for certification from the Ministry of Science and Technology (i.e., applying high-tech, carrying out high-tech R&D or being a high-tech enterprise).

Application for a certification of an enterprise applying high-tech or carrying out high-tech R&D activities (Operation Certificate)

- ▶ An organization's dossier of application for an operation certificate comprises:
 - ▶ An application for the certificate, made according to a form provided by the Ministry of Science and Technology
 - ▶ A notarized copy of the business registration certificate, investment certificate, science and technology enterprise certificate, or certificate of registration of scientific and technological operations
 - ▶ A written explanation regarding the high-tech application project or high-tech R&D scheme (for high technologies on the list of those prioritized for development investment)
 - ▶ The managing agency's written certification of the contents presented in the written explanation (for organizations managed by ministries, ministerial-level agencies or Government-attached agencies) or a written certification of the provincial-level Science and Technology Department of the locality in which the organization carries out high-tech application or R&D operations (for organizations not managed by ministries, ministerial-level agencies or government-attached agencies).

- ▶ An individual's dossier of application for an operation certificate comprises:
 - ▶ An application for the certificate, made according to a form set by the Ministry of Science and Technology, enclosed with two 4x6 cm photos
 - ▶ A copy of his or her valid identity card or passport
 - ▶ A written explanation about the high-tech application project or high-tech research and development scheme (for high technologies on the list of those prioritized for development investment)
 - ▶ A written certification of the contents presented in the written explanation, given by the provincial-level Science and Technology Department of the locality in which the individual carries out high-tech application or R&D operations
 - ▶ An operation certificate is valid from the date of its issuance until the completion of a project or scheme.

Application for a high-tech enterprise certification

Dossiers of application for high-tech enterprise certificates are required to be sent directly to the Ministry of Science and Technology. A dossier is made in two sets, including one original set and one photocopied set, and it comprises:

- ▶ An application for high-tech enterprise recognition, made according to a form set by the Ministry of Science and Technology
- ▶ A notarized copy of the business registration certificate, investment certificate, or science and technology enterprise certificate
- ▶ A written explanation about the enterprise's satisfaction of all the conditions in accordance with the law

A high-tech enterprise certificate is valid for five years from the date of its issuance. Regulation does not provide guidance for certificate renewal.

Incentives related to science research and technology development:

- ▶ To be certified as a scientific research and technology development project, the company is required to apply for certification by the Ministry of Science and Technology. An application dossier for the certification is required to provide documents, including the application letter, business registration certificate or investment certificate, and a detailed explanation of the project. This certificate is valid from the issuing date until the end of the CIT exemption and reduction period.

Statutory reference

- ▶ Law No. 21/2008/QH12 dated 13 November 2008 of the National Assembly on high technologies
- ▶ Decision No. 55/2010/QĐ-TTg dated 10 September 2010 of Prime Minister on the competence, order and procedures for certifying organizations and individuals carrying out high-tech application or R&D operations and recognizing high-tech enterprises
- ▶ Decision No. 49/2010/QĐ-TTg dated 19 July 2010 by Prime Minister on approving the list of high technologies prioritized for development investment and the list of high-tech products eligible for development promotion
- ▶ Decision No. 27/2006/QĐ-BKHCHN dated 18 December 2006 of the Ministry of Science and Technology on Regulation on the criteria of high-tech projects
- ▶ Decree No. 96/2010/ND-CP dated 20 September 2010 of Government on amending and supplementing a number of articles of the Government's Decree No. 115/2005/ND-CP of September 05, 2005, on the mechanism of autonomy and accountability of public science and technology organizations, and the Government's Decree No. 80/2007/ND-CP of May 19, 2007, on science and technology
- ▶ Decree No. 80/2007/ND-CP dated 19 May 2007 of the Government on science and technology enterprises



European Commission's Horizon 2020 Program

European Commission's Horizon 2020 Program

EY contacts:

Karen Hensley-Chelstowska
karen.hensleychelstowska@ey.com
+1 214 756 1045

Martin Duifhuizen
martin.duifhuizen@il.ey.com
+972 3 627 6115

Frank Burkert
frank.burkert@de.ey.com
+49 40 36132 12514

Overview

Beginning 1 January 2014, Horizon 2020 is the European Commission's financial instrument implementing the Innovation Union, a Europe 2020 flagship initiative aimed at securing Europe's competitiveness. Horizon 2020 replaces the previous FP7 program.

Available from 2014-20 with a €70.2 billion budget, the EU's new program for research and innovation will be part of the drive to create growth and new job opportunities in Europe. It is designed to bring business into the research and innovation chain throughout its various components and is the financial instrument which effectively implements the Innovation Union.

The main features of Horizon 2020 are:

- ▶ Reorganization, bringing together the Framework Programme for Research, the innovation part of the Competitiveness and Innovation Framework Programme (CIP) and the European Institute for Innovation and Technology
- ▶ Simplification and standardization of funding schemes and administrative rules
- ▶ Increased funding

Identifying and pursuing Horizon 2020 opportunities

Many companies – as well as public sector entities and universities – may be eligible for Horizon 2020 funding. Examples of funding areas include (but are not limited to):

Sustainability

- ▶ Smart, green and integrated transport
- ▶ Climate action, resource efficiency and raw materials
- ▶ Eco-innovative solutions for water management

Information and communication technologies

- ▶ Future internet, cloud computing, big data, cyber security, internet of things

Energy

- ▶ Advanced biofuel technologies
- ▶ Smart Cities
- ▶ Highly energy-efficient buildings, renewable heating and cooling
- ▶ Smart electricity networks

Food

- ▶ Competitive and resource-efficient food production systems



Additionally, Horizon 2020 will offer opportunities in the fields of nanotechnologies, advanced materials, biotechnology, advanced manufacturing and processing, security, health and space technologies.

The average grant a participating organization can potentially secure will range between €200,000 and €1.5m per project, with funding up to 100% of eligible project costs. There is no limitation on the number of projects for which a company can apply and, additionally, Horizon 2020 funding can typically be complimented with local tax and non-tax incentives. The program is available in the EU Member States and associated countries.

The Horizon 2020 process

- ▶ The Horizon 2020 Program is competitive and requires a seamless effort of identifying research and development projects that align with the program's scope and completing the intensive application process.
- ▶ A diligent, coordinated effort is necessary to identify projects and qualify value, working with stakeholders from the company and governing bodies.

EY's approach to Horizon 2020

- ▶ EY's global incentives advisory network comprises more than 800 professionals within EY focused on assisting companies with tax incentives, cash grants and other related business incentives. EY's service delivery approach centers upon dedicated account management to multinational companies.
- ▶ EY will work to complete the efforts to secure Horizon 2020 benefits in conjunction with key company personnel with minimal disruption to companies' business operation teams.

Timing and next steps

- ▶ Horizon 2020 will cover funding opportunities from 2014-2020
- ▶ First calls for proposals are launched and currently open in all fields.
- ▶ First funding will be awarded in late 2014-early 2015.

Finding more information on Horizon 2020

The European Union website provides in-depth details regarding Horizon 2020 and can be accessed at:

- ▶ <http://ec.europa.eu/research/horizon2020>

For a discussion with an EY subject matter professional around Horizon 2020 opportunities for your company, please contact one of the named individuals in this document.

R&D incentives summary matrix – Americas (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Argentina	Software Promotional Regime	<ul style="list-style-type: none"> ▸ Reduced tax rates ▸ Tax stability 	<ul style="list-style-type: none"> ▸ 70% of social security payments as tax credit for federal taxes. ▸ 60% income tax reduction. ▸ Exemption from VAT withholding or reverse withholding, which is an important advantage from a financial standpoint.
	R&D Promotional Regime	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ 50% tax credits on qualifying R&D investments.
	Biotechnology Promotional Regime	<ul style="list-style-type: none"> ▸ VAT reimbursement ▸ Accelerated depreciation and certain exemptions 	<ul style="list-style-type: none"> ▸ 50% tax credit on social security contributions payable to the payroll assigned to the eligible R&D project. ▸ 50% of tax credit on expenses related to R&D services provided by national scientific institutions.
	Training Courses Regime	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ Tax credits of 0.8% of qualifying expenses (salaries) related to training courses.
Brazil	R&D deduction	<ul style="list-style-type: none"> ▸ Super deduction 	<ul style="list-style-type: none"> ▸ Super deduction of 160% to 200% is available to taxpayers with eligible expenses.
	Accelerated depreciations	<ul style="list-style-type: none"> ▸ Accelerated depreciation on qualifying R&D assets 	<ul style="list-style-type: none"> ▸ Depreciation of 100% is available on eligible R&D assets in the year of acquisition.
	Financial support	<ul style="list-style-type: none"> ▸ Financial support 	<ul style="list-style-type: none"> ▸ Financial plan to support new investments in R&D for Brazilian companies with reduced interest.
Canada	Scientific Research and Experimental Development Tax Incentive Program (SR&ED)	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ 20% of federal credit is available on eligible activities and expenditures (the federal credit will decrease to 15% by 2014). ▸ The credit rate is increased to 35% for small Canadian-controlled private corporations on first C\$3 million of expenditures per year. The 35% credit is 100% refundable (40% refundable for capital expenditures which phase out in 2014).
	Accelerated Capital Cost Allowance (CCA) Rate and Manufacturing or Processing (M&P) Tax Credit	<ul style="list-style-type: none"> ▸ Tax credit ▸ Accelerated depreciation on eligible R&D assets 	<ul style="list-style-type: none"> ▸ Eligible R&D assets are used in connection with a taxpayer's eligible manufacturing and processing activities; these assets may qualify for Class 29 property classification and can be depreciated over a three-year period. ▸ In addition, the eligible assets may qualify for federal and/or provincial manufacturing or processing investment tax credits ranging from 5% to 10% of the qualifying expenditures.
Chile	Tax incentive to private investment in R&D	<ul style="list-style-type: none"> ▸ Tax credits ▸ Tax deduction 	<ul style="list-style-type: none"> ▸ R&D certified contract with a registered research center: <ul style="list-style-type: none"> ▸ The tax credit against taxpayers' corporate tax is equivalent to 35% of payments associated to R&D certified contracts entered into with a registered research center, with a cap of UTM15,000 (approximately US\$1.2 million). ▸ Tax deduction is allowed as an expense for any amounts paid (not deducted as a credit). ▸ R&D project (based on in-house R&D activities): <ul style="list-style-type: none"> ▸ The tax credit against the taxpayer's corporate tax is equivalent to 35% of the base composed of total payments made concerning current expenses in tandem with the annual quota of depreciation of fixed tangible property acquired within the scope of the R&D project, with an annual cap of UTM15,000 (approximately US\$1.2 million). ▸ Tax deduction is allowed as an expense for any amounts paid (not deducted as a credit).

R&D incentives summary matrix – Americas (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ No carryback or carryforward allowed	▸ No	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments ▸ Current investments	▸ Carry back for 3 years ▸ Carry forward for 20 years	▸ No	▸ No	▸ No
▸ Retroactive investments ▸ Current investments ▸ Future investments	▸ Carry back for 3 years ▸ Carry forward for 20 years	▸ No	▸ No	▸ No
▸ Current investments	▸ Carry forward indefinitely	▸ Yes	▸ Yes	▸ Yes

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Americas (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Chile	CORFO grants and lines of credit	▸ Cash grants	<ul style="list-style-type: none"> ▸ Attraction of International R&D Centers of Excellence: <ul style="list-style-type: none"> ▸ For Institutional International R&D Centers of Excellence, a maximum of US\$12.8 million in co-financing is provided over eight years. ▸ For Corporate International R&D Centers of Excellence, a maximum of US\$8 million in co-financing is provided over four years. ▸ Applied R&D Profile Competition: <ul style="list-style-type: none"> ▸ Beneficiaries will receive a contribution of up to 80% of the total cost of the project, with a ceiling of CLP15 million (approximately US\$30,000). ▸ Applied R&D Project Competition: <ul style="list-style-type: none"> ▸ Beneficiary receives a grant of up to 80% of the total cost of the project, with a ceiling of CLP180 million (approximately US\$360,000). ▸ High Technology Business Innovation Program <ul style="list-style-type: none"> ▸ The program finances up to 50% of the total amount required, with a maximum grant ceiling of CLP750 million (approximately US\$1.5 million). ▸ Technology Consortiums for Innovation: <ul style="list-style-type: none"> ▸ The program co-finances up to 50% of the total amount required, with a maximum ceiling of CLP5 billion (approximately US\$10 million), with a maximum project duration of 10 years.
Colombia	Income tax deduction for investment or donations in research and technology development	▸ Capital allowance	▸ A capital allowance of 175% is available for investments in the science and technology industry.
	VAT exemption for imports in research, development and innovation	▸ Tax exemptions	▸ VAT exemption on equipment imported by research or technological development centers and basic education institutions dedicated to the development of projects rated scientific, technological and innovation.
	Tax exemption on new software with high scientific content	▸ Tax exemptions	▸ A five-year tax exemption is available for new software developed in Colombia and covered by new patents registered with the competent authority. The incentive is available if projects have a high content of national scientific and technological research and are certified by COLCIENCIAS.
	Exempt income for resources for science, technology and innovation, and payment of work performance related to these concepts	▸ Tax exemptions	▸ Income derived from the development of scientific, technological and innovation projects may be exempt from tax.
	Financial support of strategic programs and/or projects of applied research, technological development and innovation	▸ Financial support	▸ COLCIENCIAS promotes the availability of a bank of strategic programs and projects of applied research, technological development and innovation to support and finance in the form of co-financing and financing.

R&D incentives summary matrix – Americas (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ NA	▸ Yes	▸ NA	▸ NA
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ NA	▸ Yes	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Americas (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Mexico	Technological Innovation of High Added Value (INNOVAPYME)	▸ Cash grants	<ul style="list-style-type: none"> ▸ The grants provided through INNOVAPYME are up to US\$1.6 million per company for eligible R&D expenses paid by the Mexican company. The benefits provided under the INNOVAPYME program are: <ul style="list-style-type: none"> ▸ 30% of the current year's expenditure on an individual project. ▸ 35% of the current year's expenditure and 75% of research centers' and universities' expenditure incurred during the current year on linked projects.
	Development and Innovation on Initial Technologies (PROINNOVA)	▸ Cash grants	<ul style="list-style-type: none"> ▸ The grants provided through PROINNOVA are up to US\$2.08 million per company for eligible R&D expenses paid by the Mexican company. The benefits provided under PROINNOVA are: <ul style="list-style-type: none"> ▸ MIPYMES: 50% of the current year's expenditures and 75% of research centers' and universities' expenditure incurred in the current year. ▸ Large companies: 35% of the current year's expenditure and 75% of research centers' and universities' expenditure.
	Technological Innovation for Competitiveness (INNOVATEC)	▸ Cash grants	<ul style="list-style-type: none"> ▸ The grants provided through INNOVATEC are up to US\$2.77 million per company for eligible R&D expenses paid by the Mexican company. Benefits provided under INNOVATEC are: <ul style="list-style-type: none"> ▸ 25% of the current year's expenditure on an individual project. ▸ 35% of the current year's expenditure and 75% of research centers' and universities' expenditure on linked projects incurred in the current year.
United States	Research credit	▸ Tax credits	<ul style="list-style-type: none"> ▸ Regular credit: The maximum cash benefit in tax savings for the regular credit is about 6.5% of a business's QREs. ▸ Alternative Simplified Credit (ASC): Generally, the credit is equal to 9.1% of a business's increase in QREs in the current year, over 50% of the average QREs for the prior three years.
	Tax deduction	▸ Super deduction	<ul style="list-style-type: none"> ▸ 100% tax deduction on eligible R&D costs for federal and state tax purposes.

R&D incentives summary matrix – Americas (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Current investments ▸ Retroactive investments	▸ Carry back for 1 year ▸ Carry forward for 20 years	▸ No	▸ No	▸ No
▸ Current investments ▸ Retroactive investments	▸ Carry back for 2 years ▸ Carry forward for 20 years	▸ No	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Australia	R&D Tax Incentive	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ A 45% refundable tax offset is available for eligible R&D entities with a turnover of less than A\$20 million per annum. ▸ A nonrefundable 40% tax offset is available for all other eligible R&D entities. ▸ Foreign-owned R&D can qualify for the 40% or 45% tax offset depending on its group turnover.
China	Incentives for high-technology and new-technology enterprises (HNTE) status	<ul style="list-style-type: none"> ▸ Reduced tax rates ▸ Tax holiday ▸ Tax exemptions 	<ul style="list-style-type: none"> ▸ A reduced CIT rate of 15% is available to HNTEs. ▸ For a qualified HNTE newly established in a special economic zone or Shanghai Pudong New Area on or after 1 January 2008, the enterprise could be entitled to a tax holiday of “two years’ exemption and three years’ half deduction” from the first year in which it derives production or operating income.
	Incentives for technologically advanced service company (TASC) status	<ul style="list-style-type: none"> ▸ Reduced tax rates 	<ul style="list-style-type: none"> ▸ The reduced CIT rate is 15% to TASCs. ▸ Deduction limit of employee education expenses increases to 8% of total salaries and wages (compared with normal rate of 2.5%) for CIT purposes.
	R&D expenses super deduction	<ul style="list-style-type: none"> ▸ Super deduction 	<ul style="list-style-type: none"> ▸ Resident enterprises are allowed to deduct 150% of qualified R&D expenses for CIT purposes.
	Qualified technology transfer income	<ul style="list-style-type: none"> ▸ Tax exemption and reduction 	<ul style="list-style-type: none"> ▸ CIT can be exempted and reduced for qualified technology transfer income.
Indonesia	Tax Allowance	<ul style="list-style-type: none"> ▸ Accelerated depreciation and amortization ▸ Reduced tax rates ▸ Investment allowance 	<ul style="list-style-type: none"> ▸ Reduced tax rate of 10% for dividend paid to non-residents (or the applicable tax treaty rate). ▸ Investment allowance is available in the form of a reduction of net income. ▸ Extended time period in relation to the carrying forward of tax losses.
Japan	R&D Tax Credit	<ul style="list-style-type: none"> ▸ Tax credits 	<ul style="list-style-type: none"> ▸ Base credit: <ul style="list-style-type: none"> ▸ The base credit is a gross type credit equal to gross R&D costs multiplied by 8% to 10% (for large corporations) or 12% (for SMEs). ▸ Under the base credit, the R&D credit is available for up to 20% of the corporate tax liability amount. For any two consecutive fiscal years starting on or after 1 April 2013, the R&D credit limitation on base credits is increased from 20% to 30% of the total National Corporate Tax liability. ▸ Additional credit: <ul style="list-style-type: none"> ▸ Taxpayers may choose either “Incremental type credit” or “Excess type credit” ▸ Incremental type credit equals incremental R&D costs multiplied by 5%. ▸ Excess type credit equals excess R&D costs over 10% of average sales multiplied by a certain percentage. ▸ Under the additional credit, the R&D credit is available for up to 10% of total the National Corporate Tax liability.
	R&D Income Deduction under Asian Business Location Law	<ul style="list-style-type: none"> ▸ Tax deduction 	<ul style="list-style-type: none"> ▸ Tax deduction of up to 20% is available for qualifying companies.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ Carry forward indefinitely	▸ No (optional)	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward 6 years (no carryback)	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ Carry forward 1 year (no carryback)	▸ No	▸ Yes	▸ No
▸ Current investments	▸ No	▸ Yes	▸ Yes	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Malaysia	Pioneer status	▸ Tax holiday	▸ 70% to 100% income tax exemption for 5 to 10 years on eligible R&D expenses.
	Investment tax allowance (ITA)	▸ Tax allowance	▸ 50% to 100% tax allowance on qualifying capital expenditure incurred within 10 years.
	Special incentive scheme	▸ Tax exemption ▸ Tax allowance ▸ Cash grants ▸ Withholding tax exemption	▸ Income tax exemption: up to 100% of income tax exemption for up to 10 years. ▸ Investment tax allowance: up to 100% of tax allowance on qualifying capital expenditures incurred for up to 10 years.
	Incentives for researchers to commercialize research findings	▸ Tax exemption	▸ 50% income tax exemption on income received from the commercialization of research findings for five years.
	Double deductions	▸ Super deduction	▸ 200% deduction for qualifying R&D revenue expenditures for eligible R&D activities.
	Financial assistance	▸ Financial support	▸ Science Fund, Pre-Commercialization Funds, Commercialization of Research and Development Fund and Cradle Investment Programme are available.
	R&D grants	▸ Cash grants	▸ Reimbursable dollar-for-dollar grant on the qualifying R&D expenditure.
Philippines	R&D expense deductibility	▸ Tax deduction	▸ R&D expenses may be fully deducted from gross income in the year of income when the R&D expenditure is paid or incurred. ▸ R&D expenses treated as deferred expenses shall be allowed as deduction ratably distributed over a period of no less than 60 months.
	Income tax holiday (ITH)	▸ Tax holiday for R&D enterprises	▸ A four-year income tax holiday for eligible entities.
	Exemption from donor's tax	▸ Tax exemptions for donations to accredited research institutions	▸ Gifts in favor of an accredited research institution or organization shall be exempt from donor's tax provided that no more than 30% of the gift shall be used for administration purposes.
Singapore	Enhanced R&D deduction	▸ Super deduction	▸ 150% enhanced tax deduction on qualifying R&D expenditure in Singapore. ▸ The R&D tax deduction is further enhanced from 150% to 400% for the first S\$400,000 of eligible R&D expenditure for the years of assessment 2011 to 2015. ▸ It was proposed in the 2014 Singapore Budget that the 150% enhanced R&D deduction on qualifying R&D expenditures in Singapore will be extended to the 2025 year of assessment. For the 2016 to 2018 years of assessment, the R&D deduction will be further enhanced from 150% to 400% for the first S\$400,000 of eligible R&D expenditures. ▸ For 2015 to 2018 years of assessment, SMEs will enjoy a 400% enhanced tax deduction on an additional S\$200,000 of qualifying expenditure.
	Research Incentive Scheme For Companies (RISC)	▸ Cash grants	▸ 30% or 50% of cash grants on total qualifying cost.
	Double tax deduction for R&D expenses	▸ Super deduction	▸ 200% tax deduction on R&D expenditure incurred on approved projects. ▸ In the 2014 Singapore Budget, it was proposed that this scheme be extended to 31 March 2020.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward indefinitely	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ Carry forward indefinitely (for Investment tax allowance option only)	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ NA	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ NA	▸ No	▸ No	▸ No
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ NA	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ Carry forward indefinitely	▸ No	▸ Yes	▸ No
▸ Future investments	▸ NA	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward indefinitely	▸ Yes	▸ Yes	▸ Yes

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
South Korea	R&D tax credit	▸ Tax credits	<ul style="list-style-type: none"> ▸ Growth industry and source technology R&D credit: <ul style="list-style-type: none"> ▸ 20% tax credit is available for qualifying companies (30% tax credit for qualifying SMEs). ▸ Ordinary R&D credit: <ul style="list-style-type: none"> ▸ Large corporations: the credit equals the greater of: (i) 40% of current-year R&D expenditures exceeding the average of the three prior years (two prior years for 2014 and prior year for 2015) R&D expenditures, or (ii) the R&D expenditures for the current year multiplied by 3% plus an additional rate defined as 50% of the R&D expense ratio, capped at 4% (previously 6%). ▸ High Potential Enterprise (HPEs): the credit equals the greater of either: (i) 40% of current-year R&D expenses exceeding the average of the three prior years (two prior years for 2014 and prior year for 2015 and thereafter) R&D expenditures, or (ii) 8% of current R&D expenditures. ▸ SMEs: the credit equals the greater of either: (i) 50% of current-year R&D expenses exceeding the average of the three prior years (two prior years for 2014 and prior year for 2015 and thereafter) R&D expenditures, or (ii) 25% of current R&D expenditures.
	R&D investment tax credit	▸ Tax credits	▸ An additional credit of 10% (5% for HPEs and 3% for large corporations) is available on the cost of developing a new R&D facility.
Thailand	R&D double deduction incentive	▸ Double deduction	▸ A 200% tax deduction is available for eligible expenditure on R&D activities carried out by Thai R&D service providers in Thailand.
	Accelerated depreciation	▸ Accelerated depreciation on qualifying R&D assets	▸ An accelerated depreciation rate of 40% is available on the total acquisition cost of machinery.
	Board of Investment (BOI) tax incentive	▸ Tax holiday	<ul style="list-style-type: none"> ▸ Under the BOI tax incentive, companies may receive benefits as follows: <ul style="list-style-type: none"> ▸ Exemption of corporate income tax (unlimited amount) for eight years, regardless of BOI zones. ▸ Double deduction on expenses related to transport, electricity and water supply ▸ Exemption or reduction of import machinery, regardless of BOI zones. ▸ Exemption of import duty on raw or essential materials used in the manufacturing of export products.
	BOI non-tax incentive	▸ Non-tax incentives	<ul style="list-style-type: none"> ▸ With the BOI non-tax incentive, companies may receive benefits as follows: <ul style="list-style-type: none"> ▸ Unlimited number of visas and work permits for qualifying expatriates. ▸ Eligibility to own land. ▸ No foreign ownership restriction. ▸ Eligible to remit money in foreign currency.
	Soft loans	▸ Loans	▸ Companies engaged in an R&D project can receive a soft loan of up to THB30 million (but not more than 75% of investment) from the National Science and Technology Development Agency (NSTDA).

R&D incentives summary matrix – Asia-Pacific (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ Carry forward 5 years	▸ No	▸ No	▸ Yes
▸ Current investments	▸ Carry forward 5 years	▸ No	▸ No	▸ Yes
▸ Current investments ▸ Future investments	▸ Carry forward 5 years	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ Carry forward 5 years	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ Carry forward 5 years	▸ Yes	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ Carry forward 5 years	▸ Yes	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Vietnam	Incentives for high technology sector	<ul style="list-style-type: none"> ▸ Reduced tax rates ▸ Tax exemptions ▸ Tax holiday ▸ Financial support ▸ Preferential land lease fees 	<ul style="list-style-type: none"> ▸ CIT: reduced tax rate of 10% applies for 15 years (up to 30 years if approved by the Prime Minister). Companies are also entitled to four years of CIT exemption and nine years of 50% CIT deduction. ▸ VAT: VAT exemption applies for transfer of technology. A VAT refund is also available in some cases where the input VAT has not been credited against the output VAT. ▸ Exemption from import duty on imported goods: a tax exemption of five years is available on import duty. ▸ Land incentives: preferential land lease fee is available for qualifying projects. ▸ Funding schemes from the national high-tech development program are available for training, research and development, or trial production.
	Incentives for science research and technology development	<ul style="list-style-type: none"> ▸ Reduced tax rates ▸ Tax exemptions ▸ Tax holiday ▸ Financial support ▸ Preferential land lease fees 	<ul style="list-style-type: none"> ▸ CIT: a reduced tax rate of 10% applies for 15 years (up to 30 years if approved by the Prime Minister). Companies are also entitled to four years of CIT exemption and nine years of 50% CIT deduction. ▸ VAT: a 5% VAT rate (out of standard rate of 10%) is applicable for qualifying projects. ▸ Land incentives: preferential land lease fee is available for qualifying projects. ▸ Stamp duty: stamp duty exemption applies when registering for land use right or house ownership.

R&D incentives summary matrix – Asia-Pacific (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	<ul style="list-style-type: none"> ▸ Carry forward 5 years (no carry back) 	<ul style="list-style-type: none"> ▸ No 	<ul style="list-style-type: none"> ▸ No 	<ul style="list-style-type: none"> ▸ Yes
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	<ul style="list-style-type: none"> ▸ Carryforward 5 years (no carry back) 	<ul style="list-style-type: none"> ▸ No 	<ul style="list-style-type: none"> ▸ No 	<ul style="list-style-type: none"> ▸ Yes

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Austria*	R&D premium	▸ Tax credit	<ul style="list-style-type: none"> ▸ Subsidy of 10% is granted for qualifying R&D expenses incurred by SMEs and large businesses. ▸ Companies are eligible for two types of subsidies; in-house research subsidies and Subsidies for outsourced (external or subcontracted) research.
	Grants by the Austrian Research Promotion Agency	<ul style="list-style-type: none"> ▸ Cash grants ▸ Loans ▸ Guarantees 	▸ The amount granted varies, depending on the development phase and kind of project, business and subject area.
	Grants by Austria's nine federal states	<ul style="list-style-type: none"> ▸ Cash grants ▸ Loans ▸ Guarantees 	▸ The amount granted varies, depending on the development phase and kind of project, business and subject area.
Belgium*	Cash grant	▸ Cash grant	<ul style="list-style-type: none"> ▸ Cash grants regime provides 25% to 80% of R&D costs to taxpayers. ▸ The grants may be provided in addition to tax incentives, and taxpayers may claim tax incentives and cash grants simultaneously.
	Loans	▸ Loans	<ul style="list-style-type: none"> ▸ The Flemish Innovation Fund (Vinnof) offers subordinated loans with attractive terms and conditions to entrepreneurs. ▸ The Walloon and Brussels regions offer recoverable advances to entrepreneurs.
	Investment deduction for R&D and patents	▸ Super deduction	<ul style="list-style-type: none"> ▸ One-shot deduction: calculated as a percentage of the acquisition value of the qualifying asset, the one-shot deduction amounts to 13.5% of the acquisition value of the asset. ▸ Spread deduction: calculated as a percentage of the annual depreciation amount, the spread deduction amounts to 20.5% of the depreciation amount.
	Tax credit for R&D and patents	▸ Tax credit	▸ Tax credit equal to the investment deduction multiplied by the standard corporate tax rate of 33.99% is available for qualifying expenses and activities.
	Patent income deduction (PID)	▸ Tax deduction	▸ The PID allows tax deductions of 80% of the gross patent income from the taxable basis, effectively reducing the effective tax rate on such income to a maximum of 6.8% (i.e., 20% of the Belgian statutory corporate income tax rate of 33.99%).
	Notional interest deduction (NID)	▸ Tax deduction	▸ The NID allows tax deduction on the equity from the taxable income resulting in a lower effective tax rate, in particular for companies engaged in equity-intensive activities.
	Foreign withholding tax credit for royalties received	▸ Tax credit	<ul style="list-style-type: none"> ▸ The foreign tax credit is available for foreign withholding tax on royalties of 15/85 of net income at the border. ▸ It is creditable against corporate income tax due.
	Partial exemption of professional withholding tax	▸ Income tax withholding incentive	▸ 80% exemption of professional withholding taxes on wages paid to specific personnel with a master's degree in the scientific or engineering domain.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Retroactive investments ▸ Future investments	▸ No	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ N/A	▸ No	▸ No	▸ No
▸ Future investments	▸ N/A	▸ No	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ Carry forward indefinitely	▸ No	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ Carry forward 5 years (remaining balance refundable)	▸ No	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ No	▸ Yes	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Czech Republic*	R&D deduction	▸ Super deduction	<ul style="list-style-type: none"> ▸ Eligible R&D costs are deducted twice: once as operating costs and also as a special deduction. ▸ As of 1 January 2014, the R&D deduction increased to 110% of incremental eligible costs incurred in the tax period.
	Investment incentives for R&D centers	<ul style="list-style-type: none"> ▸ Tax holiday ▸ Cash grant ▸ Land at preferential price 	<ul style="list-style-type: none"> ▸ Tax holiday for 10 years is available. ▸ Transfer of land at a discount, the rates of which depend on negotiation with the particular municipality or region. ▸ Job creation grants of CZK200,000 per employee in regions with high unemployment. ▸ Training and retraining grants of 25% of eligible training costs are available in regions with high unemployment. ▸ Cash grants of up to 5% of capital expenditures for R&D centers are available in the case of strategic investment.
Denmark*	Tax allowance for experimental and research activities	▸ Tax allowance	<ul style="list-style-type: none"> ▸ Costs incurred in experimental and research activities related to the taxpayer's business are in general fully tax deductible in the year in which the cost was incurred. ▸ Alternatively, the taxpayer may choose to deduct the cost over a five-year period, including the year the cost was incurred.
	Super deduction for investment opportunity	▸ Super deduction	<ul style="list-style-type: none"> ▸ New equipment and machinery may be depreciated at a rate of 115% of the standard base for tax depreciation. ▸ This regime is applicable only for equipment and machinery acquired and in use in 2012 and 2013.
	Tax credit scheme	▸ Tax credits	<ul style="list-style-type: none"> ▸ The tax credit is calculated as up to 25% of up to DKK5 million of eligible R&D costs in the relevant income year. ▸ Starting in 2015, the maximum amount to be paid out will be increased to the tax value of DKK25 million.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ Carry forward 3 years	▸ No	▸ Yes	▸ No
▸ Future investments	▸ N/A	▸ No	▸ Yes	▸ No
▸ Retroactive investments ▸ Current investments ▸ Future investments	▸ Carry forward 4 years	▸ No	▸ No	▸ No
▸ Retroactive investments	▸ No	▸ No	▸ No	▸ No
▸ Retroactive investments ▸ Current investment ▸ Future investments ¹¹	▸ No	▸ Yes	▸ Yes	▸ No

¹¹This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
France*	R&D tax credit	▸ Tax credits	▸ Tax credit of 30% is available the first €100 million of qualified R&D expenses incurred during the tax year, plus 5% of any amount in excess of €100 million.
	Cash grants for collaborative R&D projects	▸ Cash grants	▸ Several incentives are related to sustain collaborative R&D activity and can reach up to €20 million depending on the size of the project (up to €50 million with certain projects). Preapproval is required to obtain the cash grants.
	Reduced CIT treatment of revenues derived from patents	▸ Reduced tax rates	▸ Full deductibility of amortization allowances and financing costs is available on the standard 33.33% CIT rate. ▸ 15% CIT rate applies to the income derived by a French corporation from the licensing or sale of patents or patentable rights, subject to certain conditions.
	Innovative New Company status	▸ Reduced tax rates	▸ Full exemption from CIT is available for the first profitable year. Partial exemption (50%) is available for the second profitable year. ▸ Full exemption from IFA (Impôt Forfaitaire Annuel) is available on the annual tax based revenues for companies eligible for JEI status. ▸ Exemption from capital gains on transfers of shares or ownership interests is available for members of companies with JEI status (subject to certain conditions). ▸ Exemptions for 8 years from employer social security contributions is available for certain categories of employees involved in R&D operations.
	The territorial economic contribution (TEC) relief	▸ Tax exemptions	▸ Tax relief is applicable to the operations qualified as regional aid areas and for SMEs.
	Accelerated depreciation of equipment and tools used for research operations	▸ Accelerated depreciation on qualifying R&D assets	▸ The coefficients of 1.5, 2 and 2.5 are available depending on the standard duration of amortization of the equipment or the tools for tax purposes.
Germany*	Various types of grants	▸ Cash grants	▸ Cash grants range from 25% to 75% of eligible costs. ▸ Large companies may receive funding of up to 50% for eligible costs while the aid intensity for SMEs in this category may reach as high as 75%.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
<ul style="list-style-type: none"> ▸ Retroactive investments ▸ Current investments ▸ Future investments 	▸ Carry forward 3 years	▸ No	▸ Yes	▸ No
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ Yes	▸ Yes	▸ Yes
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ No	▸ No	▸ No
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ No	▸ No	▸ No
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ Yes	▸ Yes	▸ No
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ No	▸ No	▸ No
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Hungary*	VIP cash grant	▸ Cash grants	<ul style="list-style-type: none"> ▸ Cash grants are available with the amount depending on the location and nature of the investments. ▸ The grant is paid out as costs incur, and the maximum cash grant amount is typically capped at a certain percentage of the total investment amount.
	Corporate tax credit	▸ Tax credits	<ul style="list-style-type: none"> ▸ Tax credit is available to decrease the CIT liability for a period of 10 tax years. ▸ The maximum tax credit can decrease the annual corporate tax liability by up to 80%. ▸ The tax credit may be applied together with cash grants.
	Double deduction of R&D costs	▸ Super deduction	▸ The direct costs of R&D or the depreciation of capitalized R&D costs incurred in a given tax year are deductible twice for CIT purposes: once as an expense, second as a CIT base deduction item.
	Reduced social security contribution and training fund contribution for researchers	<ul style="list-style-type: none"> ▸ Tax credit ▸ Tax allowance 	▸ Reduced social contribution tax and training fund contribution are available, capped at a gross monthly wage of HUF500,000.
	Corporate tax exemption of 50% on royalty income	▸ Reduced tax rate	▸ The incentive allows for 50% of the royalty income to decrease the CIT base.
	Reduced local business tax base and innovation contribution base	▸ Tax allowance	▸ All direct costs of R&D in a given tax year are deductible from the local business tax base and from the base of the innovation contribution.
India	Deductions for expenditure on scientific research	▸ Accelerated depreciation on capital assets	▸ A 100% deduction is available on revenue and capital expenditures (other than expenditures incurred during the acquisition of land) paid out or expended in scientific research related to the business.
	Deductions for expenditure on scientific research by manufacturing entities	▸ Super deduction	▸ A weighted deduction of 200% is available for scientific research on in-house R&D expenditure.
	Deductions for contributions for R&D	▸ Super deduction	<ul style="list-style-type: none"> ▸ Weighted deduction of 200% is granted to assesseees for any sums paid to a national laboratory, university or institute of technology or specified persons with a specific direction. ▸ Weighted deduction of 175% is available for contributions made to approved institutions to be used for scientific research. ▸ Weighted deduction of up to 125% is available for contributions made to any company engaged in scientific research. ▸ Weighted deduction of up to 125% is available for contributions made to approved institutions to be used for research in social sciences or statistical research.
	Tax holiday on export profits earned by units set up in Special Economic Zones (SEZs)	▸ Tax holiday	▸ Companies engaged in export of goods and services from 1 April 2006 onward in the SEZs are eligible to claim a 15-year, phased tax holiday on all export linked profits earned.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ No	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward 10 years (no carry back)	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments ▸ Current investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments	▸ No	▸ No	▸ Yes	▸ No
▸ Current investments	▸ No	▸ No	▸ Yes	▸ No
▸ Future investments ▸ Retroactive investments	▸ Carry forward 8 years (no carry back)	▸ No	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward 8 years (no carry back)	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward 8 years (no carry back)	▸ Yes	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ Carry forward 8 years (no carry back)	▸ Yes	▸ Yes	▸ Yes

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
India	Funding for R&D activities in Technology	<ul style="list-style-type: none"> ▸ Cash grants ▸ Loans ▸ Financial support 	<ul style="list-style-type: none"> ▸ Support in the form of grants is provided by the DSIR to industrial R&D projects through Technology Development Program of DSIR.
	Customs duty exemption and concession	<ul style="list-style-type: none"> ▸ Tax exemptions ▸ Reduced tax rate 	<ul style="list-style-type: none"> ▸ Customs duty exemption is available on import of specified goods for use by the agrochemical sector for R&D purposes or by companies having in-house R&D unit, subject to conditions. Further, benefit in the form of concessional rate of customs duty is available on import specified goods by Research institutions (other than hospitals), subject to conditions.
	Excise duty exemption (research institutes)	<ul style="list-style-type: none"> ▸ Tax exemptions 	<ul style="list-style-type: none"> ▸ An excise duty exemption is available for the local procurement of specified instruments, equipment, components, etc., by research institutions (other than hospitals), subject to conditions.
	Financial assistance for Modified Special Incentive Package Scheme (M-SIPS) and Electronic Manufacturing Cluster (EMCs)	<ul style="list-style-type: none"> ▸ Financial support 	<ul style="list-style-type: none"> ▸ Financial incentives for M-SIPS: <ul style="list-style-type: none"> ▸ Subsidies equal to 25% of capital expenditure if the electronic systems design and manufacturing (ESDM) unit is in a non-SEZ and 20% of capital expenditure if the ESDM unit is within an SEZ. ▸ Reimbursement of countervailing duties (CVD) and excise duties on capital equipment for non-SEZ units. ▸ Reimbursement of central taxes and duties for 10 years in the selected high-tech units such as fabs, semiconductor logic and memory chips, and LCD fabrication. ▸ Financial incentives for EMCs: <ul style="list-style-type: none"> ▸ Assistance up to 50% of the project cost is available. ▸ Assistance up to 75% of the project cost is available.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ No	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ No	▸ No	▸ No	▸ Yes
▸ Current investments	▸ No	▸ No	▸ No	▸ Yes

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Ireland*	R&D tax credits incentive	▸ Tax credits	▸ Tax deduction for R&D expenditures incurred and an additional R&D tax credit of 25% of incremental qualifying spend over "base year spend" can be relieved against the corporation tax charge for the period. ▸ Any excess R&D tax credits can be refunded in cash resulting in tax relief of up to 37.5%.
	RDI cash grants/financial support tax credits incentive	▸ Cash grants ▸ Financial support	▸ Grants for expenditures incurred on research, development and innovation are also available from the Irish Industrial Development Authority (IDA) and are offered for both first-time foreign direct investment and companies currently located in Ireland.
	Key employee tax credit incentive	▸ Reduced tax rates	▸ The R&D tax credit regime allows a company to reward its key R&D employees who perform at least 50% of their duties in the "conception or creation of new knowledge, products, methods and systems" in the relevant accounting period.
	R&D tax credit for R&D buildings	▸ Tax credits	▸ 25% tax credit is available on the expenditure for the construction or refurbishment of a building or structure used for R&D activities.
	Allowances for capital expenditure for scientific research	▸ Accelerated depreciation	▸ Tax depreciation allowances equal to the amount of the capital expenditure incurred are available.
Italy*	R&D tax credit	▸ Tax credit	▸ The tax credit equals up to 50% of the annual increase of annual R&D expenses.
	Tax credit for qualified employees	▸ Tax credit	▸ The tax credit is set at the rate of 35% of the expenses incurred in the hiring of employees engaged in R&D activities under an indefinite-term contract.
	Tax credit for scholarships offered to university students	▸ Tax credit	▸ Companies granting scholarships to students of public universities and non-public accredited universities are entitled to benefit from the tax credit. ▸ For FY 2014, the budget amount for the incentive is set to be €10 million.
	SME R&D tax credit	▸ Tax credit	▸ Effective January 2013, SMEs and networks of SMEs investing in R&D projects or assigning any R&D projects to universities and other public research bodies may benefit from the SME R&D tax credit.
	Regional tax (IRAP) deduction for R&D employees	▸ Tax deduction	▸ IRAP is calculated on the taxpayer's net production value (NPV), and the IRAP tax rate is generally 3.9% to 5%. ▸ The tax deduction is an alternative to other IRAP tax deductions related to labor costs, and if the taxpayer elects other deductions, the incentive may not be used.
Lithuania*	The scientific research and experimental development incentive	▸ Tax deduction	▸ A 300% super deduction is available for eligible expenditures on R&D activities (except for depreciation and amortization for fixed assets).
	The scientific research and experimental development incentive	▸ Accelerated depreciation on qualifying R&D assets	▸ Fixed assets used in the R&D activities may be depreciated with accelerated terms.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ Carry back 1 year ▸ Carry forward indefinitely	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ Carry forward indefinitely	▸ No	▸ Yes	▸ No
▸ Current investments	▸ Carry forward indefinitely	▸ No	▸ Yes	▸ No
▸ Current investments	▸ Carry forward indefinitely	▸ No	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ Carryback not allowed. ▸ Carryforward allowed until the full utilization of the tax credit.	▸ Yes	▸ Yes	▸ Yes
▸ Current investments ▸ Future investments	▸ Carryback not allowed. ▸ Carryforward allowed until the full utilization of the tax credit.	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ N/A	▸ N/A	▸ N/A	▸ N/A
▸ Current investments	▸ N/A	▸ N/A	▸ N/A	▸ N/A
▸ Current investments ▸ Future investments	▸ N/A	▸ No	▸ Yes	▸ Yes
▸ Current investments	▸ Carry forward unlimited	▸ No	▸ No	▸ No
▸ Current investments	▸ Carry forward unlimited	▸ No	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Luxembourg*	R&D projects or programs	▸ Cash grants	<ul style="list-style-type: none"> ▸ Under the law of 5 June 2009, R&D and innovation aid for eligible businesses and projects may not exceed the following amounts (an additional 10%-20% increase may be granted depending on the types of enterprises or activities): <ul style="list-style-type: none"> ▸ Fundamental research: maximum 100% of eligible expenses. ▸ Applied industrial research: maximum 50% of eligible expenses. ▸ Experimental development activities: maximum 25% of eligible expenses ▸ Under the law of 30 June 2004, R&D and innovation aid for eligible businesses and projects may not exceed the following amounts (an additional 10%-25% increase may be granted depending on the types of enterprises and activities): <ul style="list-style-type: none"> ▸ Fundamental research: maximum 75% of eligible expenses. ▸ Applied research: maximum 50% of eligible expenses. ▸ Pre-competitive development activities: maximum 25% of eligible expenses.
	Medium-term and long-term loans granted by the Société Nationale de Crédit et d'Investissement (SNCI)	▸ Loans	<ul style="list-style-type: none"> ▸ Medium-term and long-term loans are available by SNCI to industrial enterprises and service providers whose activity represents a significant impact on economic development and whose equity amounts to at least €25,000.
	Accelerated depreciation	▸ Accelerated depreciation on qualifying R&D assets	<ul style="list-style-type: none"> ▸ Accelerated depreciation is applicable to materials and equipment used exclusively in scientific or technical research activities. ▸ The depreciation rate may not exceed four times the rate that would be applied for straight-line depreciation, and it may not be greater than 40%.
	Partial tax exemption of income derived from qualifying IP	▸ Tax exemptions	<ul style="list-style-type: none"> ▸ 80% of the net income generated by the exploitation of an IP right is exempt from tax (under certain conditions).

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ N/A	▸ No	▸ Yes	▸ No
▸ Current investments	▸ N/A	▸ No	▸ Yes	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Netherlands*	R&D tax credit	<ul style="list-style-type: none"> ▸ Tax credit ▸ Income tax withholding incentives ▸ Reduced social security contributions (available for employers) 	<ul style="list-style-type: none"> ▸ Tax credit of 35% is applicable for the first €250,000, and 14% is applicable to the remaining eligible R&D wage costs. ▸ For the first five years in which the taxpayer functions as an employer, the percentage for the first €250,000 is increased to 50%. ▸ The total annual benefit of lowering the wage withholding tax is limited to €14 million.
	R&D allowance (RDA)	▸ Super deduction based on costs and investments (available for personal and corporate income tax)	▸ Extra deduction of 60% is available for eligible R&D costs and investments.
	Innovation box	▸ Reduced corporate income tax rate	<ul style="list-style-type: none"> ▸ 5% of tax rate (instead of the statutory CIT rate of 25%) is available for eligible R&D income. ▸ Losses are deductible at the statutory rate of 25%, but future profits will be taxed at 25% for the amount of the loss related to the R&D allocated to the innovation box.
	Top consortia for knowledge and innovation (TKI)	▸ Cash grants for partnerships between private and public parties	▸ Cash grants of 40% are available on private investment costs for the first €20,000 and 25% for the excess.
	One-time full amortization for R&D intangible assets	▸ Full amortization for R&D intangible assets (available for personal and corporate income tax)	▸ Self-developed intangibles are fully amortized upon realization (instead of amortization over the intangibles' entire life cycle).
	R&D deduction	▸ Fixed super deduction for personal income tax	▸ Lump-sum deduction for an individual (entrepreneur) who performs R&D activities is available amounting to €12,310 or €18,467 for the first five years of an enterprise's life.
Norway	Tax credit scheme (SkatteFUNN)	<ul style="list-style-type: none"> ▸ Tax credit ▸ Reduced social security contributions 	▸ Taxpayers may take direct deductions as a percentage of their tax liabilities and social security contributions, up to 20% combined.
	Cash grants/financial support	▸ Cash grants	<ul style="list-style-type: none"> ▸ Innovation Norway provide cash grants or financial support. ▸ The amount granted varies with the development phase and the kind of project, business and subject area.
	Loans and warranties	▸ Loans	<ul style="list-style-type: none"> ▸ Innovation Norway also offers support such as loans and warranties. ▸ The amount granted varies with the development phase and the kind of project, business and subject area.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry back 1 year ▸ Carry forward 9 years	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments ▸ Current investments ▸ Future investments	▸ Carry back 1 year ▸ Carry forward 9 years	▸ No	▸ Yes	▸ Yes
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments	▸ Carry back 1 year ▸ Carry forward 9 years	▸ No	▸ Yes	▸ No
▸ Future investments	▸ Carry back 3 years ▸ Carry forward 9 years	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments ▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ To be updated
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ To be updated
▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ To be updated

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Poland*	Incentives for special economic zones (SEZs)	▸ Tax exemption	▸ Maximum value of state aid granted for an investment project may amount to 30% to 50% (depending on the location) of the eligible investment costs or two-year employment costs.
	Multi-Annual Support Program (MASP)	▸ Cash grant	▸ Cash grants ranging from PLN3,200 to PLN15,600 per job are available to eligible companies. ▸ The period of support cannot exceed five years.
	Research and Development Center (RDC) status	▸ Tax deduction	▸ Maximum of 20% of monthly revenues can be allocated to the fund (innovation fund) and recognized as tax deductible for CIT purposes.
	Deduction of new technology expenses	▸ Tax deduction	▸ Up to 50% of new technology expenses may be deducted directly from the tax base. ▸ Taking into account the 19% CIT rate, effective financial savings may result in as much as 9.5% of eligible expenses.
	Grants from EU Fund	▸ Cash grants ▸ Loans	▸ Support will be granted according to the EU's rules on support for R&D projects. The basic maximum levels of support are expected to be as follows: ▸ 100% of the eligible costs for fundamental research ▸ 50% of the eligible costs for industrial research ▸ 25% of the eligible costs for experimental development ▸ 50% of the eligible costs for feasibility studies
Portugal*	R&D cash grant (SI I&DT)	▸ Cash grants	▸ The incentive applies to incentives above €1 million. In these cases, 25% of the incentive exceeding €1 million will assume a refundable nature.
	R&D tax credit (SIFIDE)	▸ Tax credit	▸ The SIFIDE tax credit consists of two components: ▸ A base rate of 32.5% applicable to R&D expenses of the current tax year. ▸ An incremental rate of 50% on expenses incurred during the period, in comparison to the simple average of the two previous tax years, with a benefit limit of €1.5 million.
	Portuguese non-habitual resident individuals regime	▸ Preferential personal income tax rate	▸ Portuguese tax legislation grants a favorable tax regime (a flat tax rate of 23.5%) applicable to foreign employees engaged in R&D activities who relocate to Portugal.
	Deduction to income derived from patents and industrial IP developed in Portugal	▸ Patent related incentives	▸ The incentive provides for a 50% exclusion from the taxable basis in relation to income derived from contracts of transfer or of temporary use of patents and industrial designs or models.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ N/A
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ N/A
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ N/A
▸ Retroactive investments ▸ Current investments	▸ Carry forward 3 years	▸ No	▸ Yes	▸ N/A
▸ Future investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Retroactive investments ▸ Current investments	▸ Carry back 1 year ▸ Carry forward 8 years	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ Carry forward 8 years	▸ Yes	▸ Yes	▸ No
▸ Retroactive investments	▸ N/A	▸ N/A	▸ Yes	▸ Yes

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Romania*	Accelerated depreciation method	▶ Accelerated depreciation on R&D assets	▶ Through the accelerated depreciation, a maximum of 50% of the fiscal value of the asset may be deducted during the first year of usage, while the rest of the asset's value would be depreciated over the remaining useful life.
	Additional deductions for eligible R&D expenses	▶ Super deduction	▶ 50% of additional deduction for CIT is available for qualifying R&D expenses.
Russia	Super deduction	▶ Super deduction	▶ 150% of super deduction is available for eligible R&D expenses.
	Investment tax credit	▶ Tax credits	▶ Investment tax credit can be provided for one to five years and shall not exceed 50% of a taxpayer's total payment for the period. ▶ Investment tax credit shall not exceed 100% of the acquisition value of fixed assets that are going to be used in R&D activity or can be negotiated with the authorities. "
	Reduced profits tax and assets tax rates	▶ Reduced tax rates	▶ Regional governments can provide a reduced rate of profits tax from 20% to 15.5% and assets tax rate from 2.2% to 1.1% or 0% for taxpayers involved in certain types of R&D activities.
	Reduced rate of social insurance contributions	▶ Reduced social security contributions	▶ Reduced rates of social security contributions are available for IT companies at a rate of 14% (compared with 30% for regular businesses).
	Accelerated depreciation of R&D assets	▶ Accelerated depreciation on qualifying R&D assets	▶ Special coefficients, but no higher than three, to the basic depreciation norm in relation to amortizable fixed assets are available to qualifying activities.
	VAT exemptions	▶ VAT exemptions	▶ VAT exemption for certain R&D production activity is available.
	Tax holiday	▶ Tax holiday	▶ Tax holiday is provided by regional legislation for fixed assets that are used in R&D activity.
Slovak Republic*	R&D subsidy	▶ Cash grants	▶ Maximum amount of grants ranges from 25% to 100% of eligible costs depending on the type of R&D project and size of the enterprise.
	R&D income tax relief	▶ Tax credit	▶ The amount of grants ranges from 25% to 100% of eligible costs depending on the type of R&D project and size of the enterprise.
	Investment aid for technological centers	▶ Cash grants ▶ Tax credits ▶ Transfer of immovable property or exchange of immovable property at a price lower than market price	▶ The amount of aid ranges from 0% to 50% of eligible costs and depends on the region where the project is realized and on the size of the enterprise.
	Subsidy on scientific and technical services	▶ Cash grants	▶ Specific funding programs have predefined amounts of funds and the funding amounts vary by the type of program.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Future investments	▸ N/A	▸ No	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ N/A	▸ No	▸ No	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ No	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ No	▸ Yes	▸ Yes
▸ Current investments	▸ Carry forward 10 years	▸ No	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 10 years	▸ Yes	▸ Yes	▸ No
▸ Future investments	▸ Carry forward (at discretion of respective Ministry)	▸ Yes	▸ No	▸ No
▸ Future investments	▸ Carry forward (at discretion of respective Ministry)	▸ Yes	▸ No	▸ No
▸ Future investments	▸ Carry forward (at discretion of respective Ministry)	▸ Yes	▸ Yes	▸ Yes
▸ Future investments	▸ Carry forward (at discretion of respective Ministry)	▸ Yes	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Slovenia*	General R&D tax relief	▸ Super deduction	▸ 100% of R&D tax relief on the amount invested into R&D activities is available.
	Cash grants	▸ Cash grants	▸ Maximum of €54,000 of cash grants are available to cover 80% of eligible expenses.
	Loans	▸ Loans	▸ Taxpayers engaged in qualifying activities can receive a loan from a specified institution (SID Banka) with favorable terms and conditions.
South Africa	Section 11D	▸ Super deduction	▸ Super deduction equal to 150% is allowed per year for qualifying direct R&D costs.
	Section 12C (1) (gA)	▸ Accelerated depreciation on qualifying R&D assets	▸ Capital expenditures incurred to develop or construct assets used in the conduct of qualifying R&D activities qualify for accelerated depreciation: ▸ First year asset is in use: 40% of accelerated depreciation is available. ▸ Next three years: 20% of accelerated depreciation is available.
	Support Programme for Industrial Innovation (SPII)	▸ Cash grants	▸ SPII Product Process Development (PPD) scheme: The scheme provides for a reimbursement grant (maximum ZAR1 million per project) that ranges between 50% and 85% of the qualifying costs. PPD scheme applies to small, very small and micro enterprises. ▸ SPII Matching scheme: The scheme provides for a taxable and non-repayable grant of up to ZAR5 million based on a percentage of qualifying costs for a specific development project. SPII Matching scheme applies to all companies except those with more than 50% Industrial Development Corporation (IDC) shareholding. ▸ SPII Partnership scheme: The minimum grant is ZAR10 million per project. SPII Partnership scheme is available to large companies and is a repayable grant of 50% of the qualifying costs.
Spain*	Tax credit for R&D expenses	▸ Tax credits	▸ Tax credit equal to 25% (basic credit) or 42% (incremental credit) of expenses for R&D activities within a tax period. ▸ The 42% tax credit is only available for the expenditure exceeding the average of the previous two years.
	Patent box regime	▸ Partial tax exemption	▸ Revenues deriving from the supply of the right of use or exploitation of certain intangible assets benefit from a 50% reduction and consequently are taxed at a 15% rate.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ Carry forward 5 years	▸ No	▸ Yes	▸ No
▸ Retroactive investments ▸ Current investments ▸ Future investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Future investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ Carry forward indefinitely	▸ Yes	▸ Yes	▸ No
▸ Current investments ▸ Future investments	▸ Carry forward indefinitely	▸ No	▸ No	▸ No
▸ Current investments ▸ Future investments	▸ No	▸ Yes	▸ Yes	▸ No
▸ Current investments	▸ Carry forward 18 years	▸ No	▸ No	▸ No
▸ Current investments	▸ N/A	▸ No	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
Sweden*	Reduced social security contributions for tasks concerning commercially performed R&D	▸ Reduced social security contributions	<ul style="list-style-type: none"> ▸ Social security charges are currently rated at 31.42%, however, the incentive provides a reduced contribution amounting to 10% of the net salary of the R&D employees ▸ The reduction in the base for contribution amount maxes out at SEK230,000 per company/group, per month (or SEK2,760,000 per year).
	Expatriate tax regime for certain foreign experts	▸ Tax exemption	<ul style="list-style-type: none"> ▸ Twenty-five percent of the salary and benefits are exempt from taxation for individuals who have been granted expatriate taxation classification. ▸ In addition, moving expenses to and from Sweden, some travel expenses to the home country, and school fees are exempt.
Turkey*	R&D expense deduction	▸ Super deduction	<ul style="list-style-type: none"> ▸ Taxpayers may deduct 100% of R&D expenditures from the CIT base. ▸ Taxpayers can also take advantage of depreciation at a rate of 20% for five years for the R&D asset.
	Technology Development Zone (TDZ) incentives	▸ Tax exemption	<ul style="list-style-type: none"> ▸ R&D expense deduction or tax exemption from corporate tax and VAT are available for income derived from R&D and software activities in TDZs. ▸ If the R&D deduction is applied, then VAT or income tax exemption may not be utilized. Also, an R&D center cannot be established in a TDZ.
	Cash grants	▸ Cash grants	▸ The Scientific and Technological Research Council of Turkey (TÜBİTAK) provides up to 60% in a cash grant to certain portions of eligible R&D expenses.
	Income tax withholding incentives	▸ Income tax withholding incentives	▸ Income tax calculated on wages earned by the R&D and assisting personnel shall be cancelled at a rate of 90% for personnel with PhD degrees and of 80% for other personnel by deducting from the tax accrued over the withholding tax return to be submitted.
	Social security premium support	▸ Reduced social security contributions	▸ For R&D and support personnel who work in the R&D center on R&D and innovation projects, half of the employer's share of the insurance premium calculated on the wages such personnel are entitled to in return for their work is paid from the allowance.
	Stamp duty exemption	▸ Tax exemptions	▸ A range of documents (e.g., contracts and payroll slips) issued in relation to R&D and innovation activities (including the documents issued for the wage payments made to R&D personnel) are exempt from stamp tax.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
▸ Current investments	▸ N/A	▸ No	▸ Yes	▸ No
▸ Current investments	▸ N/A	▸ Yes	▸ No	▸ Yes
▸ Current investments	▸ Carry forward indefinitely	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments	▸ N/A	▸ Yes	▸ Yes	▸ Yes
▸ Current investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments	▸ N/A	▸ Yes	▸ No	▸ No
▸ Current investments	▸ N/A	▸ Yes	▸ No	▸ No

*This country qualifies for Horizon 2020 funding.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Country	Names of incentives	Incentive types	Description of benefits
UK*	Super deduction	▸ Enhanced tax deduction over and above the usual corporation tax deduction	▸ Enhanced deduction of 130% for large companies (175% for small and medium enterprises (SMEs) is available for qualifying expenses. The enhanced deduction is available before tax as a deduction against taxpayers' profits chargeable to corporation tax."
	Tax credits	▸ Tax credit to operating income as a percentage of qualifying spend	▸ A 10% tax credit is available for qualifying expenditure as an research and development expenditure credit (RDEC) claims. Up to 2016 both the super deduction and the ATL credit scheme will run in parallel, offering companies the opportunity to make an irrevocable election to file an ATL credit claim.
	Research and development allowance (RDA)	▸ First-year allowance on qualifying capital expenditure	▸ Capital expenditure on R&D attracts a first-year allowance of 100% on the qualifying expenditure.
	Patent box regime	▸ Reduced tax rate	▸ The patent box regime provides for an effective rate of tax of 10% on profits attributable to patents. It is applied by subtracting an additional trading deduction when calculating profits chargeable to corporation tax.

R&D incentives summary matrix – Europe, Middle East, India and Africa (2014-15)

Applicability	Carryforward/carryback option	Preapproval required	Annual compliance required	Certification required
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	<ul style="list-style-type: none"> ▸ Carry back 1 year ▸ Carry forward indefinitely 	▸ No	▸ Yes	▸ No
<ul style="list-style-type: none"> ▸ Future investments 	▸ N/A	▸ No	▸ Yes	▸ No
<ul style="list-style-type: none"> ▸ Current investments ▸ Future investments 	▸ N/A	▸ No	▸ Yes	▸ No

*This country qualifies for Horizon 2020 funding.

Contacts

Argentina

Gustavo Scravaglieri
gustavo.scravaglieri@ar.ey.com
Office: +54 11 4510 2224

Austria

Walter Baumann
walter.baumann@at.ey.com
Office: +43 1 211 70 1275

Michael Obernberger
michael.obernberger@at.ey.com
Office: +43 1 211 70 1381

Australia

Jamie Munday
jamie.munday@au.ey.com
Office: +61 2 9276 9087

Robin Parsons
robin.parsons@au.ey.com
Office: +61 8 9429 2251

Belgium

Hendrik Serruys
hendrik.serruys@be.ey.com
Office: +32 3 270 1468

Steven Claes
steven.claes@be.ey.com
Office: +32 2 774 94 20

Max Van den Bergh
max.van.den.bergh@be.ey.com
Office: +32 2 774 90 47

David Gay
david.gay@be.ey.com
Office: +32 3 270 45 84

Kris Opeddrynck
kris.opeddrynck@be.ey.com
Office: +32 9 242 52 73

Brazil

Eneas Moreira
eneas.moreira@br.ey.com
Office: +55 11 2573 3117

Edgard Oliveira
edgard.c.oliveira@br.ey.com
Office: +55 11 2573 3539

Canada

Susan G. Bishop
susan.g.bishop@ca.ey.com
Office: +1 416 943 3444

Chile

Alicia Dominguez
alicia.dominguez@cl.ey.com
Office: +56 2 676 1288

China

Jenson Tang
jenson.tang@cn.ey.com
Office: +86 21 2228 2045

Colombia

Margarita Salas
margarita.salas@co.ey.com
Office: +57 1 484 7110

Ximena Zuluaga
ximena.zuluaga@co.ey.com
Office: +571 484 7170

Czech Republic

Martin Hladky
martin.hadky@cz.ey.com
Office: +420 225 335 645

Denmark

Søren Keller
soeren.keller@dk.ey.com
Office: +45 5158 2936

France

Régis Houriez
regis.houriez@ey-avocats.com
Office: +33 1 55 61 12 06

Thibaud Boucharlat
thibaud.boucharlat@ey-avocats.com
Office: +33 1 55 61 15 35

Germany

Frank Burkert
frank.burkert@de.ey.com
Office: +49 40 36132 12514

Kerstin Haase
kerstin.haase@de.ey.com
Office: +49 40 36132 20284

Hungary

Tibor Palszabo
tibor.palszabo@hu.ey.com
Office: +36 1 451 8601

Orsolya Ignacz
orsolya.ignacz@hu.ey.com
Office: +36 14 51 8625

India

Hitesh Sharma
hitesh.sharma@in.ey.com
Office: +91 22 6192 0620

Indonesia

Ben Koesmoeljana
ben.koesmoeljana@id.ey.com
Office: +62 21 5289 5030

Contacts

Ireland

Ian Collins

ian.collins@ie.ey.com
Office: +353 1 2212 638

Italy

Marco Magenta

marco.magenta@it.ey.com
Office: +39 02 8514529

Domenico Borzumato

domenico.borzumato@it.ey.com
Office: +39 02 8514503

Muge Tan Belviso

muge.tan@it.ey.com
Office: +39 02 8514464

Japan

Koichi Sekiya

koichi.sekiya@jp.ey.com
Office: +81 3 3506 2447

Lithuania

Kestutis Lisauskas

kestutis.lisauskas@lt.ey.com
Office: +370 5 274 2252

Luxembourg

John Hames

john.hames@lu.ey.com
Office: +352 42 124 7256

Katia Agazzini

katia.agazzini@lu.ey.com
Office: +352 42 124 7509

Malaysia

Amarjeet Singh

amarjeet.singh@my.ey.com
Office: +603 7495 8383

Mexico

Rodrigo Castellanos

rodrigo.castellanos@mx.ey.com
Office: +1 52 55 5283 1463

Fernando Escamilla

fernando.escamilla@mx.ey.com
Office: +1 52 55 5283 1418

Netherlands

Ben Kiekebeld

ben.kiekebeld@nl.ey.com
Office: +31 88 40 78457

Bram de Nies

bram.de.nies@nl.ey.com
Office: +31 88 40 78461

Norway

Arild Vestengen

arild.vestengen@no.ey.com
Office: +47 24 00 25 92

Philippines

Emmanuel C. Alcantara

emmanuel.c.alcantara@ph.ey.com
Office: +632 894 8143

Fidela T. Isip-Reyes

fidela.t.isip-reyes@ph.ey.com
Office: +632 891 0307

Poland

Pawel Tynel

pawel.tynel@pl.ey.com
Office: +48 12 424 3226

Portugal

Francisco Hamilton Pereira

francisco.hamilton-pereira@pt.ey.com
Office: +351 226 079 699

Romania

Miruna Enache

miruna.enache@ro.ey.com
Office: +40 21 402 41 35

Camelia Stanciu

camelia.stanciu@ro.ey.com
Office: +40 21 402 8477

Russia

Alexander Smirnov

alexander.smirnov@ru.ey.com
Office: +7 495 755 9848

Singapore

Bin Eng Tan

bin-eng.tan@sg.ey.com
Office: +65 6309 8738

Slovak Republic

František Cséfalvay

frantisek.csefalvay@sk.ey.com
Office: +421 2 333 39 148

Contacts

Slovenia

Lucijan Klemenčič

lucijan.klemencic@si.ey.com
Office: +386 1 583 17 21

South Africa

Corlie Hazell

corlie.hazell@za.ey.com
Office: +27 11 772 3990

South Korea

Won Bo Jung

won-bon.jung@kr.ey.com
Office: +82 2 3770 0945

Spain

Víctor Gómez de la Cruz Talegón

victor.gomezdelacruztalegon@es.ey.com
Office: + 34 915 727 378

Sweden

Rikard Ström

rikard.strom@se.ey.com
Office: +46 8 520 592 08

Switzerland

Martin Huber

martin.huber@ch.ey.com
Office: +41 58 286 61 20

Matthias Britsch

matthias.britsch@ch.ey.com
Office: +41 58 286 65 37

Thailand

Yupa Wichitkraisorn

yupa.wichitkraisorn@th.ey.com
Office: +662 264 9090

Pathira Lam-ubol

pathira.lam-ubol@th.ey.com
Office: +662 264 9090

Turkey

Serdar Altay

serdar.altay@tr.ey.com
Office: +90 212 368 51 87

Kutay Gün

kutay.gun@tr.ey.com
+90 212 368 5373

United Kingdom

Frank Buffone

fbuffone@uk.ey.com
Office: +44 20 7951 1991

United States

Craig M. Frabotta

craig.frabotta@ey.com
Office: +1 216 583 4948

David S. Hudson

david.hudson@ey.com
Office: +1 202 327 8710

Vietnam

Huong Vu

huong.vu@vn.ey.com
Office: +84 4 3831 5100

Horizon 2020 program

Karen Hensley-Chelstowska

karen.hensleychelstowska@ey.com
Office: +1 214 756 1045

Martin Duifhuizen

martin.duifhuizen@il.ey.com
Office: +972 3 627 6115

Frank Burkert

frank.burkert@de.ey.com
Office: +49 40 36132 12514



About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Business Tax services

Our Business Tax services are designed to meet your business tax compliance and advisory needs. Our [number] tax professionals draw on their diverse perspectives and skills to give you a seamless global service in planning, financial accounting, accounting and tax compliance and maintaining effective relationships with the tax authorities. Our talented people, consistent global methodologies and unwavering commitment to quality service give you all you need to build the strong compliance and reporting foundations and sustainable tax strategies that help your business succeed.

© 2014 EYGM Limited.
All Rights Reserved.

EYG no. DL1072
1403-1225497
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

Circular 230 Statement: Any US tax advice contained herein is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

The content is based on information current as of 15 March 2014, unless otherwise indicated in the text of the chapter. Changes to the tax laws and other applicable rules in various countries covered by this publication may be proposed. Therefore, readers should contact their local EY firms to obtain further information.

ey.com

Contacts

David Helmer

david.helmer@uk.ey.com
+44 20 7980 0373

Robin Parsons

robin.parsons@au.ey.com
+61 8 9429 2251

Craig Frabotta

craig.frabotta@ey.com
+1 216 583 4948

Christine Oates

coates1@uk.ey.com
+44 (0)121 535 2466

Rob Thomas

rob.thomas@ey.com
+1 202 327 6053

Christine Alvarez

christine.alvarez@ey.com
+1 202 327 6831