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cutting through complexity

R&D incentives and services – adding value across the Americas

2014 edition

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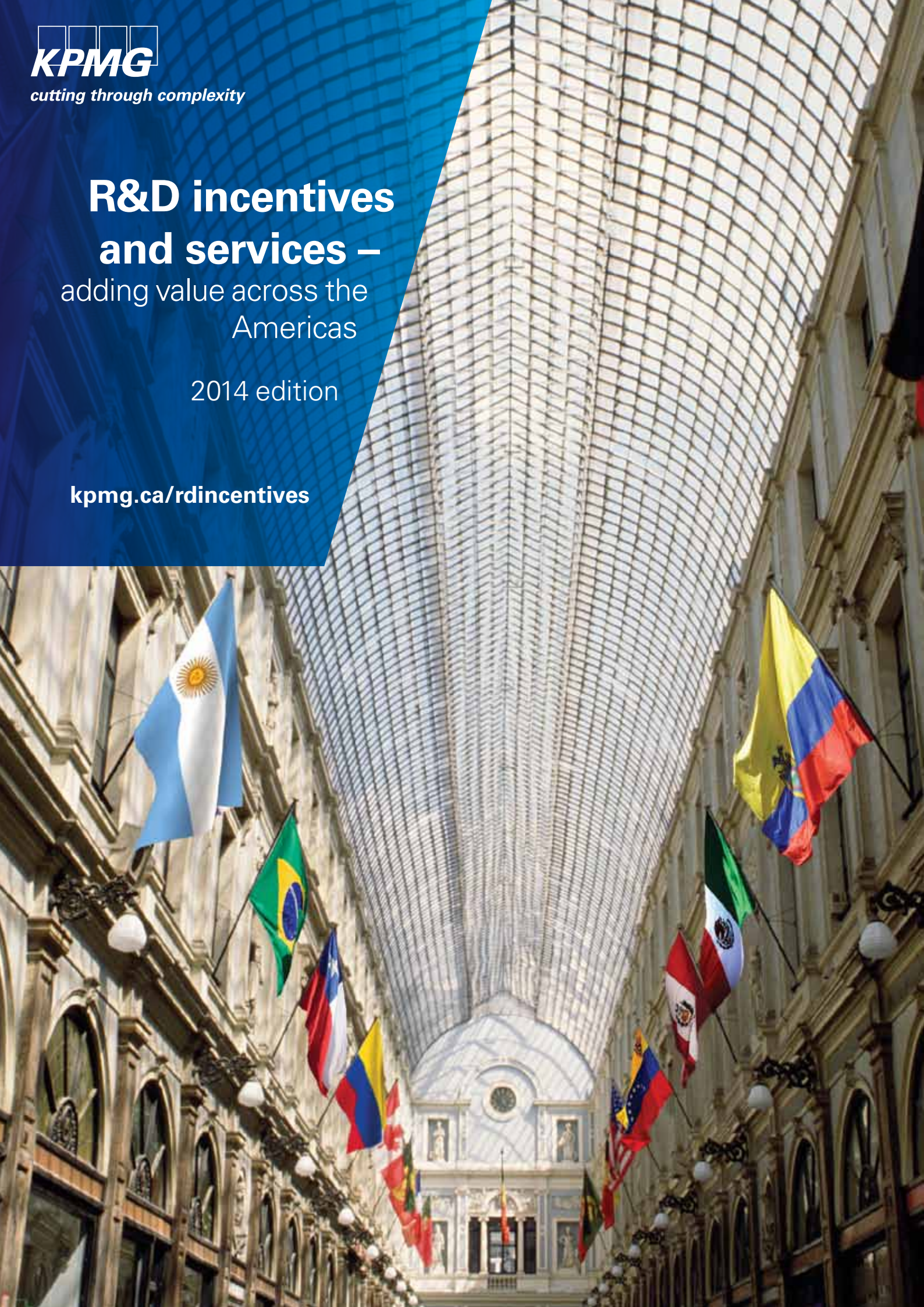

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Americas R&D Reference Guide

Overview

This is the second edition of KPMG's Americas (Canada, the US and Latin America) research and development (R&D) incentives guide. The country-specific information and summaries of R&D tax incentives for R&D expenditures in this guide aim to help you decide where to locate R&D programs.

The continued global economic downturn has many governments re-evaluating their R&D tax credits, looking for ways to encourage foreign companies to invest in their countries. Many of those incentives are for job creation. Companies, however, require strong stable economies and governments before investing their R&D dollars in a particular country.

The latest economic release from the Conference Board of Canada discusses the protracted economic crisis and potential for long-term growth for the regions of the world. In 2014, Latin America is projected to grow by 2.8 percent of gross domestic product (GDP). The United States is projected to grow by 3.0 percent. The International Monetary Fund argues for a growth rate of 3.0 percent for Latin America and the Caribbean (Brazil and Mexico at 2.3 and 3.0 percent respectively), 2.8 percent for the United States and 2.2 percent for Canada.

Battelle's forecast for growth in global R&D is projected to be 3.6 percent or 1.6 trillion US dollars (USD) in 2014.

The measure used to compare international expenditures is the gross domestic expenditure on R&D (GERD). This consists of the total expenditure (current and capital) on R&D carried out by all resident companies, research institutes, and university and government laboratories. GERD does not include funds spent outside the domestic economy (OECD). The current statistics available from the Organisation for Economic Co-operation and Development (OECD) are for 2012. The United States is still the dominant player with 2.9 percent GERD.

Country	2012 GERD Purchasing Power Parity USD billions
United States	436.0
Brazil	30.0
Canada	28.6
Mexico	6.8
Argentina	4.2

Source: *2012 Global R&D Funding Forecast: R&D Spending Growth Continues While Globalization Accelerates.* http://www.rdmag.com/articles/2011/12/2012-global-r-d-funding-forecast-r-d-spending-growth-continues-while-globalization-accelerates

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Americas R&D Reference Guide (continued)

R&D in the Americas marketplace

Highlights of recent tax developments related to Americas R&D are as follows:

- Brazil's Sao Paulo University is ranked 20th in the world for research contributions. Argentina, Chile and Peru continue to contribute government funds to the development of research centers.
- Battelle's global R&D spending forecast for 2012 estimated that the Americas region will spend USD505.6 billion on R&D, with the United States accounting for USD436 billion of this total amount.
- In Canada, gross domestic expenditures on R&D were anticipated to amount to USD30 billion in 2012, a 0.3 percent increase from R&D expenditures for 2011.
- Among Latin American economies, Brazil leads in R&D investment with broad initiatives, which include creating 101 research institutes and expending about 1 percent of its national GDP. However, both the level and growth of its world share remain small compared to other countries in the region.
- Brazil's R&D spending accounts for more than 75 percent of the total R&D spent in all of South America (Battelle 2013).
- Generally, R&D investments in Latin America are limited by factors such as:
  - a lack of coordination between research institutions and the private sector
  - lower propensity of business to innovate compared with other emerging markets in OECD countries
  - a lack of available funding.
- Chile is reversing this trend with the establishment of the Chilean Economic Development Agency (CORFO), which is expanding its R&D regime and setting up a framework in that is more in line to R&D programs within the Americas Region.

Companies that depend on R&D can channel savings in other areas to invest in R&D activities and support growth and profitability. A critical part of a multinational company's R&D strategy includes reviewing the tax savings offered through the R&D tax incentives of various countries and deciding which R&D location would optimize its return on investment.

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In the past, many Americas countries inadvertently discouraged investments in R&D by requiring expenditure to be capitalized. Now, many of these countries permit a current tax deduction for the costs of R&D activities. Many allow enhanced deductions and/or special tax credits for R&D expenditures. Tax incentives are also often granted to businesses that contribute to universities and other research organizations to encourage basic research and investment in assets used in R&D activities.

Although the basic definition of R&D is similar in most countries, there are variations in country-specific taxation legislation and incentive regimes. In some countries, incentives are limited and qualification is difficult. In others, incentives are lucrative and easily attained.

R&D-related considerations

The practical details of R&D incentives programs are covered in the following pages, but there are several related matters that decision-makers should consider when determining the best location and structure for their R&D activities in the Americas region, discussed below.

Net cost of R&D

The relative costs of performing R&D in one country versus another (i.e. the after-tax cost of R&D) are important factors in evaluating where and under what circumstances R&D activities should take place.

Intellectual property

The net cost of performing R&D should be considered in combination with the strategy for managing potential intellectual property (IP) created by successful research. Factors to consider include which entity within the group funds the creation of IP, legal and economic ownership, and the tax consequences of any income generated. Moving IP within the group once it has been developed can create significant tax liabilities, so the strategy for subsequent IP ownership is crucial when considering R&D activities. Several countries have introduced or are about to introduce favorable tax regimes for income arising from IP.

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Americas R&D Reference Guide (continued)

World patent filings grew 7.8 percent in 2011, exceeding 7 percent growth for the second year in a row at 2.14 million (World Intellectual Property Organization). The largest growth in patent filings in 2011 came from China with an increase of 41.9 percent. Both South Korea and the US saw resident filings grow by 4.7 percent and 2.4 percent respectively in 2011, and filings in Brazil grew by 21.5 percent over previous years.

Americas IP Activity

Country	Patents	Marks	Design
Ecuador	108	61	81
Venezuela	83	59	91
Peru	86	48	75
Argentina	60	62	82
Chile	48	32	100
Colombia	54	46	71
Mexico	34	26	46
Brazil	27	21	29
Canada	12	19	23
United States	3	3	6

Note: The rankings are based on total number of applications by origin. Patent data refer to the number of equivalent patent applications. Trademark data refer to the number of equivalent trademark applications based on class count (i.e. the number of classes specified in applications). Industrial design data refer to the number of equivalent industrial design applications based on design count (i.e. the number of designs contained in applications).

Source: WIPO 2012 World Intellectual Property Indicators

Transfer pricing

A company's strategy for its R&D activities and IP ownership should take into account the plan's potential impact on transfer pricing policies. Transfer pricing rules require that intragroup arrangements be priced for tax purposes in the same way as similar arrangements between unrelated parties. Therefore, intragroup arrangements covering, for example, R&D services, funding of R&D, management of R&D, cost-sharing arrangements for the development of IP and the licensing of IP, all need pricing in accordance with the arm's length principle. These aspects are complex, particularly within multinational group activities, where responsibilities are often organized on a regional, transnational basis and private-party activities can be split in a way that independent-party activities cannot. An area that is currently receiving increased attention is the pricing of associated R&D risk management in terms of, for example, the employees who are uniquely placed to make decisions regarding the conduct of the R&D and how these contributions are evaluated for transfer pricing purposes.

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Country-specific tax benefits

Many countries provide tax credits for taxes paid by a resident businesses to other countries. Countries also offer other tax incentives to attract investment and encourage exports. The net cost of R&D performed in the country and the impact of R&D costs on other tax benefits must be considered when determining the value of the tax benefits.

Short-term economic stimulus measures

Short-term measures implemented by governments to stimulate their economies in response to the global financial crisis, such as accelerated deduction programs for investment in tangible depreciable assets, are worth taking into account, as these may top up existing benefits delivered through R&D incentive schemes.

The equation to be solved

It is vital to consider the tax treatment of R&D costs, technology transfers, transfer pricing and other related local tax issues in any given country. It is critical to evaluate all R&D incentives available, the impact of all R&D costs on other tax benefits and the wider IP strategy of the company for all countries in the Americas region before you decide where to locate your R&D programs. We hope this publication delivers long-lasting value for your organization by helping you identify current and future opportunities to obtain R&D incentives throughout the Americas.

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Americas R&D Incentives

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Argentina

Brazil

Canada

Chile

Colombia

Ecuador

Mexico

Peru

United States

Uruguay

Venezuela

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Argentina

Overview

Argentina's GDP in 2013 was 3.0 percent. With its diversified economy, Argentina has well-developed industries in sectors such as agribusiness, automotive, pharmaceuticals, chemicals and petrochemicals, biotechnology and design manufacturing, and recent growth in the software and IT sectors.

Agriculture is still the country's primary industry, ranked number one for concentrated lemon juice and soybean oil exports. This strength in agriculture positions Argentina as a leader in biotechnology research. Argentina also possesses a wealth of mineral resources, with significant deposits of lead, zinc, tin, silver, potassium, copper and gold. The manufacturing industry accounts for 21 percent of the economy, with food and beverages growing at an annual rate of 7.1 percent from 2003 to 2011, and with a 135 percent increase during this period for exports to 127 countries. The country boasts 952 wineries located in all regions. Eleven of the top automotive and parts manufacturers base their export platforms in Argentina. The pharmaceutical and pharma-chemical industry account for 4.99 percent of the country's industrial added value.

With an increase in funding from USD510 to USD732 million, the Ministry of Science, Technology and Productive Innovations (MINCYT) provides strong support for R&D in the country. The government's National Agency for Promotion of Science and Technology (ANPCYT) continues to promote the Infrastructure Plan for Science and Technology established for 2008 to 2011, which includes USD97 million for improving and expanding 50 research centers and associated institutions.

R&D investments created an annual average growth rate of 15 percent from 2003 to 2011, with marked growth in biotechnology applications, particularly recombinant DNA technology and gene therapy. Drug exports doubled from 2003 to 2011. Argentina is the world's third largest producer and leading exporter of biofuels.

Definition of R&D

Project work is defined as:

- **Applied research** or the ability to acquire knowledge for practical application in production and/or marketing.
- **Precompetitive technology research:**
  - expanding existing knowledge from research and/or practical experience
  - producing new materials, products or devices
  - establishing new processes, systems or services, including the construction phase of prototypes, pilot plants or demonstration units.

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- **Adaptations and improvements:**
  - developments and technologies designed to adapt and introduce improvements that are not original and novel.
- **Transfer of technology:** projects that, once developed and/or approved, move from the pilot stage to industrial-scale production.
- **Support:** Projects aimed at transferring knowledge, information or services to solve specific technical problems and provide elements for resolution, such as:
  - optimization of a process
  - improved product quality, quality control testing, design advice, marketing
  - plant commissioning or performance testing, or training of staff.

Eligibility requirements

The projects submitted are evaluated on their quality, feasibility, adequacy, the technical and economic viability of the proposal and credit-worthiness of the petitioner.

R&D expense deductions

Law 23877 has no tax benefit related to the deduction of R&D expenses.

R&D tax credit

The regime grants tax credits that may be offset against income tax payable. The credit must be utilized over a period of three years in three equal amounts per fiscal year. The following expenditures are not eligible for tax credits:

- administrative costs or costs derived from the use of energy and telecommunications
- the utilization value of equipment and infrastructure of the beneficiary that is allocated to the project's performance
- the purchase or lease of real property.

Tax Credit Certificates

Tax Credit Certificates are issued based on the development of the project over a period of time, along with the technical execution and accounting. Tax credit certificates are awarded in fractional amounts. These certificates are non-trasferable and non-endorsable. The certificates must be used within a specific time period. Their effective term is for one, two or three years, with each term running from the certificate's date of issuance.

Such certificates can be applied toward the payment of income tax based on the following tax brackets:

Percentage cancelable				
Awardee's annual income tax for the fiscal year			Maximum percentage that may be paid with Tax Credit Certificates	
Over Argentine Peso	Up to Argentine Peso	Argentine Peso	Max. percent	On surplus Argentine Peso
0	200,000	.....	100	0
200,000	500,000	200,000	80	200,000
500,000	1,000,000	440,000	60	500,000
1,000,000	5,000,000	740,000	40	1,000,000
5,000,000	10 million	2,340,000	20	5,000,000
10 million	No limit	3,340,000	10	10 million

Source: Decree 270/98

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Argentina
(continued)

Grants and other incentives

Regime for promoting software R&D

In Law 25922 (amended by Law 26692), the Republic of Argentina sets out a national program for the promotion of software development, valid until 31 December 2019. The benefits granted by this program are:

- tax stability
- a tax credit bond equivalent to up to 70 percent of social security withholdings and contributions applied to national taxes (except for the proportional amount of the income tax relating to sales in the local market). For the taxpayer receiving this benefit, this bond is not included in taxable income
- certificates granted for exemption from value added tax (VAT) withholding and/or collection regimes
- tax relief of 60 percent of the assessed income tax
- product imports exempt of any kind of present or future restriction on the remittance of foreign currency.

The following activities qualify for this incentive:

- software creation, design, development and production
- implementation and customization of the developed software systems
- related technical documentation, in basic and application terms, including the software development in processors used for consoles, telephone exchanges, cell phones, machines and other such devices.

Self-development activity is not subject to the benefits granted by this program. Where an individual performs activities other than those subject to the promotion program, the main activities fall within the software industry if more than 50 percent of those activities are included in the definition of activities subject to the promotion program.

Software companies wishing to apply for this program must meet at least two of these requirements:

- quality assurance
- investment in R&D
- intent to export.

Through this national program, the provinces and the city of Buenos Aires were invited to issue comparable promotion regulations. So far, the city of Buenos Aires and the provinces of Buenos Aires, Mendoza and Córdoba, among others, adhere to this program and grant exemptions for their provincial taxes.

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Brazil

Overview

Brazil continues to do well in the global slowdown, but growth slowed in 2012 to 1.5 percent and in 2013 to 2.3 percent. The forecast for 2014 is a growth rate of 2.3 percent. Unemployment is low at 5.4 percent, inflation has declined, and poverty levels have fallen. The Brazilian economy is large and diversified. The country has major oil and gas reserves and large mineral deposits and is the world's eighth largest steel producer and a large diversified manufacturing base. Additionally, tax incentives offered by provincial governments attract many companies, some from Europe, which is only a six-hour flight away. One of the fast-growing industries is soy production in the central eastern part of the country.

In 1984, CERTI, originally named the Regional Foundation for Computing Technology, was formed as an institute dedicated to science, technology and innovation. Today, CERTI provides for the transformation of scientific and technological knowledge into innovative business projects in regions across Brazil.

The Brazilian Ministry of Science, Technology and Innovation (MCTI) introduced a stimulus plan of USD250 million, aimed at software and IT related services.

Intel recently announced plans to invest USD152 million in Brazil over the next five years in R&D. Intel will partner with the Brazilian government, and the direct investment will increase the number of people working within the country and pay for research at seven of Brazil's universities. The Brazilian government will match Intel's investment to stimulate software development, helping to shift Brazil's economy from resource-based industries to a knowledge-based economy. In addition, Microsoft plans to open a research center in Rio de Janeiro, investing USD102 million over the next four years. Cisco also announced that it would invest USD508 million from 2013 to 2017.

The Brazilian government announced that it intends to fund a program focused on biotechnology and provide resources for scientific research, but no specific dollar amount has been committed to date.

Definition of R&D

For the purposes of the law, technological innovation is defined as the "conceiving of a new product or manufacturing process as well as the addition of new functionalities or characteristics to the product or process that imply incremental improvements and effective quality or productivity gain, resulting in higher market competitiveness."

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Brazil
(continued)

Eligible activities

R&D activities include:

- **Basic research:** work performed to understand new phenomena, with the goal of developing products, processes or innovative systems.
- **Applied research:** work performed to acquire new knowledge, with the goal of developing or improving products, processes and systems.
- **Experimental development:** systematic work delineated from pre-existing knowledge to prove or demonstrate the technical feasibility and functionality of new products, processes, systems and services, or an improvement in existing technology.
- **Basic industrial technology:** the measurement and calibration of machinery and equipment, the design and manufacture of instruments for measuring specific compliance certificates, including the corresponding tests, standardization and technical documentation generated, and the patenting of the product or process developed.
- **Technical support services:** services that are indispensable to implementing and maintaining facilities or equipment that are intended exclusively for the creation of research projects, for technological innovation, and for training employees devoted to such projects.

Eligibility requirements

The instruction IN-RFB 1187/11 regulates the use of benefits in technological innovation.

Some primary requirements are:

- The company must have a taxable income within the period.
- All expenses connected with the projects must be controlled through specified accounts.
- Goods and services must be acquired in Brazil to be eligible, with a few exceptions (i.e. importation of fixed assets).
- Entities that utilize the Information Technology Law benefits (8248/91 and 10176/01) can also use the incentives.
- Clearance of federal taxes is required (certified each semester).

Registration

Companies that use the incentives must:

- Fill out a specific form explaining the benefits, projects and innovation structure used in the previous year and submit the form to the Ministry of Science, Technology and Innovation (MCTI).
- Report annual income tax return values to the Brazilian Federal Revenue (RFB).

Pre- or post-approval of projects to benefit from the incentives is not required.

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R&D expense deductions

Eligible projects qualify for:

- an additional deduction of 60 percent of expenditures in technological innovation from the income tax calculation (income tax and social contribution on net profit):
  - the deduction may reach 80 percent of R&D expenditures, plus an additional 5 percent of researchers that are hired as regular employees or moved from a different internal area
  - if the innovative project results in IP, the additional deduction is 20 percent.
- full depreciation of the assets acquired to be exclusively used in the RD&I activities.
- accelerated amortization for intangibles assets used in R&D.

R&D tax credit

A 50 percent reduction of federal excise tax (tax on manufactured products) is available for equipment, machinery, instruments, accessories, spare parts and tools that accompany manufactured goods used in research and technological innovation development.

- No tax withholding applies on overseas remittances for the registration and maintenance of trademarks and IPs (patents and cultivars).

Grants and other incentives

Special funding lines for innovation

The National Bank for Economic and Social Development (BNDES) is an agency of the Ministry of Development, Industry and Trade (MDIC). The BNDES aims to support projects that contribute to the country's development, improving the competitiveness of the Brazilian economy and raising the quality of life for its population.

In its Corporate Plan 2009/2014, BNDES selected innovation, local development and regional and environmental development as the most important aspects of economic development. These aspects should be promoted and emphasized in all projects supported by the bank. The BNDES also aims to support exports and technological innovation.

Direct grants for R&D projects

Brazil's Financing Agency for Studies and Projects (FINEP) promotes the economic and social development of Brazil by providing public support for science, technology and innovation in companies, universities, technological institutes and other public and/or private institutions. The initiatives are concentrated in two areas:

- Sector funds for science and technology: instruments for financing research projects, development and innovation in the country. There are 16 Sector Funds, of which 14 are related to specific sectors and two are cross-sector (one is focused on university and company interaction and the other is intended to support the improvement of Institutes of Science and Technology infrastructure).
- Special funding: FINEP operates its programs through financial support, refundable and non-refundable, and covers all the stages and dimensions of scientific and technological development, such as basic research, applied research and the development and improvement of products, services and processes. The agency also supports the incubation of technology-based companies, the establishment of technology parks, the structuring and consolidation of research processes and market development.

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Brazil
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RHAE program

The RHAE Training Program for Human Resource Development Technology is an incentive program for micro, small and medium enterprises (SME) that invest in the development of research in innovation by hiring MScs and PhDs to manage and implement R&D programs within their companies.

State research foundations

Every state in Brazil has its own research foundation that manages all the investments in research within that particular state. These agencies are also responsible for projects between universities and companies, providing funding for selected projects and special programs for SMEs and large companies.

Exempt freight rate waterway

Exemption from the payment of the freight rate Additional Shipping for Merchant Marine Renewal (AFRMM) for goods intended for scientific and technological research. AFRMM corresponds to a rate levied on the remuneration of water transport, and its value varies from 10 percent to 40 percent, depending on the water transport route.

Pro-Innovation program (RS State – South Region)

Legal basis: Law 13.196/2009

Decree 46.781/2009

Normative Resolution 04/2011

Main objective of the law:
The Pro-Innovation program aims to encourage innovation and scientific and technological research in productive environments through investments in industrial and agro-industrial development as well as research centers and technological development that seek to introduce new products, processes and services and contribute to the socioeconomic development of an integrated and sustainable state.

The incentive program is limited by:

- 75 percent of incremental State VAT (ICMS)
- the term of three years, renewable by renegotiation
- 3 percent of the monthly gross sales of the company.

Program Inovar-Auto (Automotive Sector)

Legal basis: Law 12.715 from 17/09/12

Decree 7.819 de 03/10/12

Main objectives of the law:
In October 2012, the Brazilian government established a program called Inovar-Auto. This program aims to promote technological innovation and to expand the vehicle production chain – with the objective of promoting the technological development, innovation, security, environmental protection, energy efficiency and quality of the vehicles and parts manufactured in Brazil.

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The main objectives of the program are to: (i) stimulate the parts and strategic raw materials market to consolidate the effective Brazilian Industry growth; (ii) ensure investments in research, development and innovation to increase the level of Brazilian quality standards, safety-related engineering and basic industrial technology (TIB); and (iii) Improve the level of efficiency of vehicles by increasing their energy efficiency and reducing greenhouse gas emissions (CO2).

Inovar-Auto program benefits are available to entities that produce, sell or invest in the local production of tractors, trucks and cars. Companies that qualify for the program are entitled to the IPI presumed credit, which can be obtained/granted on qualifying for this program.

The credit is calculated based on locally incurred expenditures on strategic raw materials, tools, research, technological development, technological innovation, obtaining National Fund for Scientific and Technological Development (FNDCT) supplier support, engineering and basic industrial technology.

Beneficiaries of the Inovar-Auto program are:

- trucks, bus chassis, vans and car manufacturers and importers
- companies with investment projects approved for setting up the automotive industry in the country.

The program is:

- granted by the Ministry of Development, Industry and Foreign Trade (MDIC)
- valid for 12 months from the authorization request
- renewable up to 31 January 2017. An exception existed for 2012, in which authorization was valid until May 31, 2013 and could then be extended for an additional 12 months
- available on request at any time
- available through a choice of three arrangements.

This qualification provides a "Certificate" that is sent by the Government to qualified companies.

To qualify, entities must:

- demonstrate fiscal regularity (federal taxes)
- deliver a commitment term for achieving energy efficiency levels (for cars only)
- conduct a number of manufacturing activities per year in 80 percent of vehicles manufactured (stamping, welding, plastic injection, motor manufacturing, etc.)
- commit a minimum amount in relation to gross revenue (less taxes) to expenditures relating to R&D
- commit a minimum amount in relation to gross revenue (less taxes) to expenditures on engineering, industrial technology base and supplier supporting
- provide a program of expenditures and investment in the country (only for merchandising companies).

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Canada

Overview

The 2014 forecast for the Canadian economy is slow economic growth. Canada's economy ended 2013 with just 2.0 percent growth in the GDP, a slight improvement over the 2012 GDP of 1.9 percent. In a recent speech by the Governor of the Bank of Canada, Stephen Poloz stated that slow economic growth will be the new norm, requiring central bankers across the world to keep interest rates low during a prolonged period of stagnation.

The federal government has been working to streamline the Scientific Research and Experimental Development tax (SR&ED) credit program, worth 3.6 billion Canadian dollars (CDN) for over 24,000 Canadian companies who benefit from this incentive. The streamlining included a cut to the federal general investment tax credit (ITC) rate from 20 percent to 15 percent for larger companies starting in 2014, as well as the elimination of capital assets from the list of expenditures eligible for ITCs. Canadian-controlled private corporations (CCPC) that meet certain income and capital requirements are eligible for a federal 35 percent refundable ITC. Provinces also provide SR&ED ITC tax benefits, which are in addition to the federal ITCs noted above. These provincial ITCs may be either refundable or non-refundable and range from 4.5 percent to 37.5 percent of eligible SR&ED expenditures.

The federal government has announced that it will redirect savings from the streamlining of the federal SR&ED regime to support existing or new government grant programs. The largest beneficiary to receive new government funding is the Federal Industrial Research Assistance Program (IRAP).

Definition of R&D

In general, SR&ED is defined as a systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, the primary purpose of which is to advance scientific knowledge or achieve technological advancement.

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Eligibility requirements

In order to qualify for the incentive, the following three criteria must be present:

1 **Scientific or technological advancement**: the work must generate information that advances the understanding of scientific relations or technologies.

2 **Scientific or technological obstacle**: uncertainty that the goals can be achieved.

3 **Systematic investigation**: there must be evidence that qualified personnel with relevant experience in science, technology or engineering have conducted a systematic investigation through experiment or analysis.

Work that qualifies includes:

a) **Basic research**: work done to advance scientific knowledge without a special practical application in view.

b) **Applied research**: work done to advance scientific knowledge with a specific practical application in view.

c) **Experimental development**: work done to achieve technological advancement to create new materials, devices, products or processes or improve existing ones.

d) **Supporting activities**: 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 work described in paragraph (a), (b), or (c) that is undertaken in Canada by or on behalf of the taxpayer.

Activities not eligible for benefits under the SR&ED program include:

- research in the social sciences or humanities
- commercial production of a new or improved product
- routine data collection
- prospecting for or producing minerals, petroleum or natural gas.

Registration

Registration or pre-approval is not required to apply for this tax incentive. To file a SR&ED claim, taxpayers must file an income tax return along with the prescribed Form T661, which contains detailed information on the projects being claimed. Form T661 must be filed no later than 18 months from the end of the taxpayer's taxation year. Failure to file the form by the reporting deadline precludes a taxpayer from being able to claim ITCs on the SR&ED expenditures incurred in that year.

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Canada
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R&D expense deductions

Companies are entitled to an immediate deduction (no super deduction) for all qualified expenditures incurred in Canada during the year. Eligible SR&ED expenses that may be deducted include wages, materials consumed or transformed, subcontracted SR&ED, lease costs of equipment, payments to universities, colleges or consortia, certain capital expenditures (until 31 December 2013), and overhead. Overhead expenditures can be computed by specifically identifying incremental expenditures incurred as a result of undertaking the SR&ED (traditional method) or using a simplified method computed as 65 percent of the directly engaged labour (proxy method).

Up to 10 percent of SR&ED wages and salaries of Canadian resident employees incurred while working on Canadian SR&ED projects outside of Canada are also eligible for this incentive as well.

All SR&ED expenditures that cannot be deducted in the current year may be carried back three years or forward indefinitely to future taxation years.

In 2012, the federal government announced a number of changes to the SR&ED program:

- reduction to the federal ITC rate from 20 percent to 15 percent starting 1 January 2014
- capital expenditures no longer qualify for SR&ED tax incentives starting 1 January 2014
- notional rate for overhead SR&ED expenditures under the proxy method is reduced from 65 percent for 2012 and prior years, 60 percent for 2013, and 55 percent for 2014 and later years
- contract SR&ED and third-party payments for SR&ED expenditures are only 80 percent eligible for ITCs, starting 1 January 2013.

As of January 1, 2014, the above changes have all been enacted.

R&D tax credit

The ITC rate applied against eligible SR&ED expenditures varies by the type of entity (CCPC vs. non-CCPC), taxable income and capital requirements as well as the provinces in which the SR&ED is conducted. The following is an overview of the ITC rates available:

- A general 15 percent federal tax credit for all qualifying SR&ED expenditures (20 percent in 2013 and prior years). The rate increases to a 35 percent refundable credit for certain CCPCs on the first CDN3 million in expenditures incurred in the year, provided the company had less than CDN800,000 (USD820,480) of taxable income and no more than CDN50 million (USD51.3 million) in taxable capital in the prior year.
- Provincial SR&ED incentives vary from 4.5 percent to 37.5 percent. Some provinces offer fully refundable ITCs.

Federal refundable ITCs are not available to non-CCPCs; however, certain provinces provide refundable ITCs without restriction to CCPCs and non-CCPCs alike. Unused tax credits may be carried back three taxation years or carried forward 20 taxation years. There is no cap on the amount of expenditures and related ITCs that may be claimed in any given year. In addition, there is no restriction on the location of intellectual property, although the taxpayer must be entitled to exploit the results of the SR&ED in order to be eligible for the Canadian SR&ED program.

Further details on provincial related ITC rates and qualifications are outlined in Appendix – Canada of this guide.

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Grants and other incentives

The main source of SR&ED funding is provided through the federal and provincial SR&ED programs. Both the federal and provincial governments provide other forms of grants, low-interest or forgivable loans and other SR&ED incentives.

The federal NRC Industrial Research Assistance Program (IRAP) is an example of a federal grant program that provides financial support to qualified small and medium-sized enterprises in Canada to help them undertake technological innovation.

The basic eligibility criteria for IRAP funding are:

- small and medium-sized enterprise in Canada, incorporated and profit-oriented
- fewer than 500 full-time equivalent employees
- ability to progress and create profits through development and commercialization of innovative, technology-driven, new or improved products, services or processes in Canada.

The company must contact an industrial technology advisor in its industry, who will assist them with their projects. To be considered for financial support, both the firm and the project are assessed by IRAP. The due diligence process specifically assesses:

- the business and management capabilities of the firm and the company's potential to achieve the expected results and outcomes associated with the proposed project
- the financial capabilities of the firm and its plan to commercialize the developed technologies
- the technical aspects of the project and its potential impact on the firm.

In addition to ITCs for SR&ED carried out in Canada, federal and provincial governments provide grants and other incentives from time to time. Examples of these other incentives include:

- enhanced tax credits for research conducted by universities, research centers and other consortia
- special tax credits for industries including IT, digital media, video games and film.

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Chile

Overview

Chile's public budget for science, technology and innovation increased in 2012 from 0.4 percent of GDP to 0.8 percent or USD500 million (OECD). A foundation for the development of many Latin American countries is the development of expertise within the country, fostering more science within universities and improving research and technology transfer. In 2008, Chile created an eight-fold plan to highlight more entrepreneurship and technology transfer, along with forging global connections and sharing scientific knowledge.

Chile currently has among the lowest levels of science and innovation in the world. In response, Chile passed a law in January 2011 to reduce regulatory barriers for young companies and introduced easier access to credit for small enterprises and women (Fondo Capital Abeja). Since 2008, the tax rebates for investing in research and collaboration with academic partners increased, with the potential to further reduce an entrepreneur's tax bill by another 35 percent through the Chilean Economic Development Agency (CORFO). With this initiative, CORFO will broaden the types of spending that qualify for tax credits to include intellectual property and infrastructure costs, to a total of USD20 million. Sectors such as food, mining, global services, aquaculture and special interest tourism received a further USD1.1 million for programs between public and private institutions, companies, researchers and academics.

In 2012, the Chilean government increased funding for scientific infrastructures with a budget of over USD10 million.

After a successful first call that brought four internationally renowned R&D institutions to Chile, in 2013, CORFO began accepting applications from corporate R&D centers in addition to institutional (government or non-profit) centers. The goal is to open 6 to 10 new R&D centers in Chile in 2013 and 2014. This program, called the International Centers of Excellence Program 2.0, is part of a larger initiative by CORFO and the Chilean government aimed at establishing Chile as an innovation hub in Latin America and the world by strengthening its innovation ecosystem. The International Centers of Excellence Program 2.0 joins a new system of R&D tax incentives in promoting high-caliber research and international collaboration in Chile (CONFIRMAR).

Definition of R&D

Research is defined as original, planned investigation aimed at attaining new knowledge and a greater understanding in the fields of science and technology, with the expectation to help develop, strengthen or improve Chile's competitive capacity.

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Development is defined as the application of the results of research or those of any other type of scientific knowledge for the manufacturing of new materials or products, or for the design of new processes or production systems, as well as for the substantial technological improvement of materials, products, processes or pre-existing systems.

R&D activities include the manifestation of the results of research in a plan/draft, scheme or design, and the creation of initial, not-for-sale prototypes or demo projects, provided that they cannot be converted or utilized for industrial or business purposes.

Eligibility requirements

General common requirements for the R&D tax credits against corporate income tax are as follows:

- The R&D credit may not exceed 15,000 Monthly Tributary Units (UTM).
- The contracts must be entered into with investigation and duly registered development centers.

R&D expense deductions

Chilean law allows companies to deduct the cost of R&D activities for corporate income tax purposes. The corporate income tax rate is 20 percent for the 2013 tax year.

General expenses related to carrying out R&D projects can be deducted in the year in which they were incurred or later periods in accordance with article 31 n° 11 of the income tax law. Intellectual property expenses and capital expenses are not deductible.

R&D tax credit

A tax credit of 35 percent is allowed for R&D expenses based on agreements signed with R&D centers and registered with CORFO. According to Law N° 20.241, this benefit is valid until 31 December 2025.

The portion of the R&D expense, net of the 35 percent tax credit, can be deducted as an expense against income, regardless of the taxpayer's business purpose, in the current year or subsequent 10 years.

Unused credits can be carried forward indefinitely but will be adjusted for inflationary effects.

Grants and other incentives

Chile provides a number of different governmental grant programs to encourage investment in R&D. These programs are typically governed by CORFO.

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Colombia

Overview

The Economist Intelligence Unit indicates that the economy of Colombia slowed to 4.5 percent of GDP in 2013 but should return to an annual average of 4.6 percent of GDP in 2014 through 2017.

Despite the "free trade" designation, a 15 percent income tax has applied since 2007 to (zonas francas uniempresariales – ZFUs) or single zones and companies operating from zonas francas permanentes (ZFP) or permanent zones. On top of this 15 percent tax, tax reform implemented by Law 1607 in December 2012 imposes a new 8 percent levy (temporarily; for the years 2013, 2014 and 2015, the rate is 9 percent), referred to as the Tax on Profits for Fairness (Impuesto Sobre la Renta para la Equidad – CREE). Companies declared free trade zones or that have applied for qualification by December 31, 2012 and industrial users of goods and services that have been qualified or will qualify in the future continue to operate under earlier payroll tax rules. Although these taxation rules may differ from that of a traditional free trade zone, the resulting 23 percent nominal rate is still lower than the effective corporate tax rate of 33 percent (25 percent income tax rate and 8 percent CREE levy) for non-free trade zone companies in 2013.

Definition of R&D

In a ruling issued by the administrative department for science, technology and innovation (Colciencias) in 2011, scientific research, technological innovation and technological development are characterized as follows:

- **Scientific research:** a set of activities aimed at achieving one or more objectives related to the generation or adaptation of knowledge, following a defined methodology.
- **Technological innovation:** an activity that aims to generate, adapt, master and utilize new technology in a region, industry or specific application. This technology must represent a significant advance in the region, industry or field.
- **Technological development:** the application of research results or any other scientific knowledge for the manufacture of new or substantial improvement of new materials, products, process design, production systems and services.

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Eligible requirements

The activities of research, technological development and innovation projects, include projects related to:

- software development
- new medical products
- investment in science and technology
- donations in science and technology
- imported equipment for research and technological institutions recognized by Colciencias or educational institutions and universities recognized by the Ministry of Education.

In order to register a scientific, technological or innovation project at Colciencias, the following are required:

- The project researchers must provide basic information, such as their educational background and work experience, in an electronic resumé that is sent to the Science and Technology Directorium (CvLAC).
- The project must be inscribed in Colciencias' Integrated Project Management (SIGP) through the tax incentives digital form.
- All required documents must be in a digital format.

The entities that claim the value added tax (IVA) benefits established for importing assets must:

- allocate imported equipment for the development of projects that qualify as scientific research or technological innovation by Colciencias
- fill out an application to qualify the project and attach the documentation as required by the Registration Office in Colciencias
- develop areas of science and technology according to the understanding of the National Science and Technology System (SNCyT)
- undertake a project that is reviewed or executed by the technological institutions recognized by Colciencias.

In order to qualify, the exemption must be issued by Colciencias according to terms established by Colciencias.

In order to benefit from third-party donations (that will be deducted from the company's tax payments) for projects in science and technology carried out by research centers, technological development centers set up as non-profit entities or centers, and research groups created by universities, the following are required:

- pre-approval of the project by Colciencias as scientific research, technological innovation and/or a technological development project
- qualification of the project by Colciencias based on environmental impact.

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Colombia
(continued)

R&D expense deductions

Colombian law allows companies to deduct the cost of R&D as follows:

- A tax deduction of 175 percent is allowed on the project's scientific and technological value as evaluated and approved by Conciencias. This deduction cannot exceed 40 percent of the company's net income before the deduction of the investment value; however, the difference can be carried forward to following years. This deduction does not generate taxable income for partners or shareholders.
- The above-noted deduction excludes the application of depreciation or amortization of assets through production costs or operating expenses.
- Where financial resources for an R&D project are donated, 175 percent of the value of the donation can be deducted. This deduction cannot exceed 40 percent of net income before the deduction of the investment value; however, the difference can be carried forward to following years.
- Income generated from new software developed in Colombia with a high content of scientific and technological research is exempt from income tax. The income obtained in Colombia or abroad is exempt from income tax for a period of 5 years commencing 1 January 2013. Software is considered a creation comprised of one or more of the following elements: the computer program, the program description and/or the auxiliary material.
- Income generated from new medicinal products that is deemed sufficiently innovative and includes Colombian raw materials is exempt from income tax for a period of 5 years commencing 1 January 2013. A medicinal product is a preparation of active ingredients or ingredients present in natural resources, with or without adjuvant and presented in a pharmaceutical form.
- Imports of certain capital goods for technological institutions recognized by Colciencias and educational institutions and universities recognized by the Ministry of Education for projects characterized as scientific research, technological innovation and technological development are exempt from IVA.

R&D tax credit

No tax credits are provided for R&D activities.

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Grants and other incentives

Grants

The Colombian government offers different grants and financial aid to promote scientific research, technological innovation and technological development in the country. The grants and financial aid include, among others:

- Funding for scientific research and technology (debt relief) projects. Only companies that intend to develop projects and whose development does not generate direct economic benefits for the company/legal entity can apply.
- Financing projects for innovation and business development (co-financing modality): companies may apply for the funding of innovation projects and technological development to be developed jointly (executor and beneficiary).
- Funding for innovative projects and business development (loan repayment): companies established in the country may apply for funding for innovative projects and business development through a credit line granted by the Foreign Trade Bank of Colombia (Bancoldex) and Colciencias.
- Funding for patenting or protectable technologies: Under this arrangement, both natural persons and legal persons residing in Colombia are protected in the categories of activities related to the protection of intangible assets originated in Colombia, including: patents and products procedures, utility models of products (equipment, machines, mechanisms, devices, appliances and related items), software patenting abroad and certificates of plant breeders.

Other incentives

Other incentives granted in Colombia to stimulate R&D initiatives in the country are as folllows:

- Institutions recognized by the Colombian Ministry of Education focused on scientific, technological or innovative project development are exempt from IVA.
- Educational institutions such as universities are exempt from income tax under Colombian law.
- Prizes and awards recognized by the Colombian government that are obtained in scientific, literary, journalistic, sports-related and artistic competitions are exempt from the income tax.
- The government also grants tax benefits to individuals who donate to and invest in R&D projects in strategic areas, such as: basic sciences, social sciences and humanities, industrial development, agricultural sciences, environment, housing, education, health, electronics, telecommunications, information technology, biotechnology, mining and energy.

Colombia generally grants incentives to companies that significantly increase investments while creating new jobs or at least maintain a set level of jobs. Rather than direct subsidies, Colombia's incentives take the form of tax discounts or preferential interest rates for loans (Economist Intelligence Unit).

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Ecuador

Overview

Ecuador continues to work on improving its investment climate but remains in a state of evolution. Laws and regulations are in place to encourage both domestic and foreign private investment. However, countries that wish to do business in Ecuador should consult with a tax professional as there are frequent changes to the tax code.

There are no postgraduate universities in Ecuador and relatively few R&D investments, limited mainly to agriculture. The Ecuadorian government is taking steps to change this situation by developing "Yachay, the City of Knowledge". This national project will boost science and technology focussing on five essential fields of the scientific knowledge: life sciences, nanotechnology, renewable energy, petro-chemistry and information and communication technologies.

According to the most recent data census in November 2010, investment in science and technology increased from 0.03 percent of GDP in 2003 to 0.55 percent of GDP in 2010.

Ecuador offers a unique research infrastructure and opportunities to do research in several highly diverse locations, facilitating research into the environment, natural resources, biotechnology, agricultural development, health and oceanography. In fact, the country has one of the most diverse natural landscapes on the planet.

Investment in R&D doubled from USD67 million in 2007 to USD140 million in 2008. In addition, the expenditure in R&D per capita increased from US 11 to USD21 for the same period.

The President announced that USD782 million dollars will be invested in science and technology in 2013.

Ecuador invests 0.55 percent of its GDP in science and technology. The challenge is to reach at least the minimum of 1 percent of GDP recommended by UNESCO.

In December 2010, the Organic Code of Production, Trade and Investments was issued. The code is intended to encourage and support industrial and scientific investigation, as well as innovation and technological transfer.

Definition of R&D

For the purposes of the Organic Code of Production, the term "technological research" refers to the structure of instruments, techniques and procedures, by means of the application of the scientific method, that encompass the primary objective of discovering, describing or producing new supplies, equipment or production processes that may enhance an operation's efficiency or a venture's earnings.

Eligibility requirements

Eligible companies include companies created since the effective date of the Code of Production (29-XII-2010) as well as new companies created by the existing ones in order to make new and productive investments.

Source: http://www.andes.info.ec/es/actualidad/6663.html

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New and productive investments should be performed outside of the urban jurisdictions of Quito and Guayaquil and involve the following economic areas considered as a priority by the Ecuadorian government:

- fresh, frozen and industrialized food production
- forestry and agro-forestry-chain and finished products
- metallurgical
- petro-chemistry
- pharmaceutical industry
- tourism
- renewable energy included bio-energy or energy from biomass
- logistic services for foreign trade
- biotechnology and software applied
- strategic replacement sectors of imports and promoting export, determined by the president of the Republic.

No additional registrations, authorizations or other conditions are required to take advantage of this benefit.

R&D expense deductions

Expense deductions for R&D in Ecuador include the following:

- For the purposes of calculating income tax advance payments, the amounts that correspond to the acquisition of new assets assigned to technological innovation can be excluded.
- For the purposes of calculating income tax, during a five-year term, medium-sized companies can take **an additional** 100 percent deduction of the expenses incurred on the following:
  - technical training on research, development and technological innovation that improves productivity, limited to one percent of salaries and wages for the year in which the benefit was applied.
  - expenses for improving productivity through the following activities, limited to one percent of the sales; technical assistance for product development that applies research and marketing analysis; technical assistance of professional services contracted to design processes and products; performance and implementation of processes; design of packaging; development of specialized software; and other business development services.
- In addition, companies that reinvest their profits in the country may obtain a 10 percent-plus income tax rate deduction on the amount reinvested in productive assets, assigned for the acquisition of goods related to research and technology that improve productivity, generate productive diversification and increase employment.

New companies, new investments and individuals are subject to the payment of an advance of income tax after the fifth year of effective operation (i.e. commencement of production and trade).

Grants and other incentives

The "Prometeo" program is an initiative to attract researchers to contribute to the generation and transfer of scientific knowledge in Ecuador. The program provides economic incentives for foreign and Ecuadorian researchers, such as airfares and stipends for living expenses

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Mexico

Overview

Mexico is currently facing a crucial period in its efforts to become a focal point for foreign investment. During 2013, structural reforms were pursued to improve competitiveness in different economic sectors. Mainly, the tax and energy reforms aim to stimulate investment in growing sectors. In these same areas, additional attractive tax and monetary incentives are expected to be introduced in the short term.

In 2013, the National Council for Science and Technology (CONACYT) increased its financing for R&D by 28 percent – the greatest increase in the past eight years. Funding for 2014 is expected to rise even higher, with the CONACYT expected to provide funds of approximately USD2 billion for eligible R&D projects. The Mexican R&D incentive programs for 2014 will distribute mainly cash subsidies. According to the federal budget, the total available amount to be granted to several institutions (including CONACYT) is approximately USD6.23 billion. The Mexican government's strategy is to favor and strengthen policies, programs and projects involving public-private relations that create self-generating sources for continued development.

Definition of R&D

According to CONACYT, R&D activities are those conducted by an enterprise, preferably in association with universities or investigation centers, that perform, develop and innovate in strategic knowledge areas. The activities must have a significant impact on national competitiveness, generate valuable products, produce services and processes, encourage human resources of a higher level and contribute to a strategic economic sector.

Eligibility requirements

In order to be eligible for the program, an enterprise must be:

- duly incorporated according to Mexican laws and registered in the Federal Taxpayer Registry
- formed as one of the following legal entities: General Partnership, Corporation, Limited Liability Company, Public Company, Cooperative Company, Investment Promotion Stock Company, Limited Partnership, Joint Stock Company or Rural Production Company

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- up-to-date with tax obligations
- registered in the Companies Registry (REINECYT)
- prepared to file a projection, at the beginning or halfway through the fiscal year, of those projects intended to be developed in that fiscal year with the Innovation and Development of Investigation Commission (COPARMEX). For projects to be conducted during 2014, applications open in January and close in September. Additionally, the candidate must present or clarify, where applicable, the proof and documents crediting the personality and domicile of the company and its legal representatives
- prepared to state under oath that the information accompanying the application is true and that the company has no debts or judicial conflicts with CONACYT or with the funds regulated by the Science and Technology Law
- in some specific cases, subscribe to a collaboration instrument with one of the linked Superior Education Institutions (whether public or private) and National Public Investigation Centers.

Deduction of R&D expenses

Investments or expenses related to R&D activities are generally deductible, as long as they comply with the general tax provisions.

Therefore, such expenditures may be deducted as expenses directly or as investments by applying the depreciation or amortization rates. In some cases, the percentage may be 100 percent, for example, for acquisitions of equipment used in the production of renewable energy.

R&D tax credit

Before 2009, Mexico offered a tax benefit for taxpayers who invested in R&D mainly consisting of tax credits; however, counter to the current global trend, the government changed its strategy and adopted a direct funding program for R&D projects undertaken in Mexico. However, in light of current structural reforms, it is possible that tax benefits could return to help make investment in the country more attractive.

Other funds and incentives

Additionally, CONACYT offers the following funds:

- Sectoral Fund Investigation for Airports and Aerial Navigation Development (ASA-CONACYT), which is a trust created to provide solutions to issues related to airports and aerial navigation
- Sectoral Fund of Investigation and Development on Water (Conagua-Conacyt), which is trust created to provide solutions to issues affecting the water sector
- Sectoral Fund for the Forestry Technologic Investigation, Development and Innovation (CONAFOR-CONACYT), which is a trust created to provide solutions to issues affecting the forestry sector

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Mexico
(continued)

- Sectoral Fund of Investigation and Development of Marine Sciences (SEMAR-CONACYT), which is a trust created to provide solutions to issues affecting the marine sector
- Sectoral Fund for the Investigation and Technological Development in Energy (CFE-CONACYT), which is a trust created to provide solutions to issues affecting the electric national sector by means of promoting the investigation and technological development
- Mixed Funds of Promotion of Scientific and Technological Investigation by state
- CONACYT Institutional Fund (FOINS), grants support and financing for activities directly linked to the development of scientific and technological investigation by universities and institutions of superior education (public and private) investigation centers, laboratories, public and private companies and other individuals and corporations that are registered in the National Registry of Scientific and Technological Institutions and Enterprises (RENIECYT)
- Institutional Fund for Regional Promotion of Scientific, Technological and Innovation Development (FORDECYT), which is a program that contributes to the economic and social development of the country's regions by financing technological investigation, development and innovation proposals of potential high impact that resolve problems that limit the development or generate improvement opportunities
- The Secretary of Energy (SE) and CONACYT's fund for scientific and technological investigation on energy sustainability that benefits universities and other investigation centers
- Sectorial Fund of Innovation (FINNOVA) together with the SE, which provide economic progress and social sustainability support for scientific, technological and innovation development
- Sectorial Fund CONACYT-Secretary of Energy – Energetic Sustainability, which is a trust created to attend to the main issues and opportunities related to the sustainability of Mexico's energy. Its objective is to promote applied scientific and technological investigation, as well as technological adoption, innovation, assimilation and development related to renewable energy resources, energetic efficiency, use of clean technology and diversification of primary sources of energy.

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Peru

Overview

Peru's economy continues to do well, growing at an annual rate of over 6 percent. In January 2013, growth occurred largely in construction, followed by the financial, insurance and retail sectors. The only sector to contract was mining. Peru's finance minister, Luis Miguel Castilla, projected that Peru's GDP would grow by 6.3 percent in 2013.

The Peruvian government invested USD400 million in science and technology to aid in the development of technological innovation. With USD100 million invested in the financing of innovation projects through Financiamiento de Proyectos de Innovación (Fincyt), these funds will assist in developing programs to enhance Peru's industrial and agricultural sectors in the global market. Peru currently invests about 0.1 percent of its GDP in science and technology, which is below the Latin American average.

Definition of R&D

There is no official R&D definition for Peru.

Eligibility requirements

Expenses in R&D are deductible for income tax purposes.

R&D expense deductions

Law N° 30056 introduced a new regulation that has been in force as of 3 July 2013.

According to paragraph a.3), article 37° of Income Tax (IT) Law, R&D expenses, related or not related with the company´s activity, are only deductible where they relate to qualified R&D projects.

R&D expenses related to the company´s activity are deductible in the same year that the company obtains the such qualification.

R&D project expenses that are not related to the company´s activity are not deductible until the qualification is obtained by the company, in which case a deduction of only 65 percent of the deferred expenses will apply.

The qualification must be obtained within 45 days and is issued by the Consejo Nacional de Ciencia, Tecnología e Innovación Tecnológica – CONCYTEC.

This qualification from CONCYTEC will authorize the taxpayer to develop the R&D projects, directly or through centers of scientific research, technological innovation or technology.

If the research is conducted by the taxpayer directly, the taxpayer must have human and material resources devoted exclusively to the research.

The centers of scientific research, technological innovation or technology that sponsor research must be duly authorized by the CONCYTEC or the government.

R&D tax credit

No tax credits are provided for R&D activities.

Grants and other incentives

No incentives are provided for R&D.

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United States

Overview

Tax credit for research and experimentation expenses

One of the major federal tax incentives for business-related research and development activities is a non-refundable credit against federal income taxes for incremental research spending. Although it has been generally in effect since 1981, it is a temporary provision and currently is not available for expenses paid or incurred after December 31, 2013. In the past, when the provision has expired, Congress has usually enacted an extension for another year or two that covers qualified expenses retroactively to the previous termination.

There have been numerous proposals in Congress over the years to revise the credit rules, for example, by changing it from a credit for incremental spending to a percentage of total current spending, by expanding the amount of tax liability that can be offset by the credit, by making the credit refundable, or by allowing the credit to be transferred to a person other than the taxpayer generating the spending.

Congress is currently considering reforms to the US income tax rules that might reduce statutory rates, eliminate various preferences and simplify their complexity. If tax reform becomes a topic of debate, questions about the future of the research credit and potential modifications to it could be considered.

Definition of R&D

For the purposes of the R&D credit, qualified research is defined as research that satisfies all four parts of a four-part test. Qualified research is research that is:

- **Technological in nature**: relying on the physical or biological sciences, computer science or engineering
- **Undertaken to eliminate uncertainty**: relating to capability, methodology or product/ process design
- **Undertaken for a permitted purpose**: relating to function, performance, reliability or quality, as opposed to a cosmetic or aesthetic purpose
- **Consists of a process of experimentation**: evaluating one or more alternatives.

A further three tests must be satisfied for the development of internal-use software to be considered as qualified research:

- **Innovation test**: the software must be innovative in that it is intended to result in an improvement that is substantial and economically significant
- **Significant economic risk test**: the software development must involve significant economic risk and uncertainty due to technical risk
- **Commercially available test**: the software must not already be commercially available for use by the taxpayer without modifications.

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Eligibility requirements

The research must be conducted in the US, Puerto Rico or a US territory to qualify.

If a taxpayer is a member of a controlled group of corporations, or a group of trades or businesses under common control, then the R&D credit must be calculated on a group basis. The R&D credit must then be allocated among members of the controlled group. Non-US entities are included, but, as a practical matter, they may have little to contribute to the controlled group computation.

R&D expense deductions

The expenses that may be claimed as Qualified Research Expenditures (QRE) for the R&D credit are limited to:

- (Taxable) wages: incurred in the performance, direct supervision or direct support of qualified research activities
- Supplies: tangible property used or consumed in conducting the qualified research activities but not land or property that must be depreciated
- Contract research: for contract research conducted on behalf of the taxpayer in instances where the taxpayer is at financial risk, claimable at 65 percent (or 75 percent or 100 percent in certain situations).

A broader scope of expenditures paid or incurred in conducting research and experimentation activities are eligible for a current deduction; alternatively, a taxpayer may capitalize and amortize such expenditures, even if they are not related to a specific item of depreciable property. Not all of these expenditures are eligible for the research credit.

Whether expenditures qualify as R&D expenditures depends on the nature of the activity to which the expenditures relate. Neither the nature of the product (or improvement) being developed nor the level of technological advancement matters when making this determination.

R&D expenditures generally include all expenditures that are incurred in resolving uncertainties of a technical nature incident to the development or improvement of a product. R&D expenditures include the expenditures of obtaining a patent, such as attorney's fees expended in making and perfecting a patent application.

Product

The term "product" includes:

- formula
- invention
- patent
- pilot model
- process
- technique
- similar property.

Expenditures not included

R&D expenditures do not include expenditures for:

- quality control testing
- advertising or promotions
- consumer surveys
- efficiency surveys

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- management studies
- research in connection with literary, historical, or similar projects
- acquisition of another's patent, model, production, or process
- land or property that must be depreciated (though any depreciation expense would be eligible).

When and how to choose

Generally, you can only make the choice to deduct R&D expenditures in the first year you incur such expenditures.

You choose to deduct R&D expenditures, rather than capitalizing them, by deducting them on your tax return for the year you first have R&D expenditures.

If you fail to choose the method for the first taxable year in which you incur such expenditures, you cannot do so in the subsequent taxable years unless you obtain the consent of the Commissioner.

R&D tax credit

Calculation

Traditional method

The R&D credit is equivalent to 20 percent of the current-year QRE less the base amount.

- The base amount is the greater of:
  - the product of the fixed-base percentage and the Average Annual Gross Receipts (AAGR)
  - 50 percent of the current-year QRE.
- The fixed-base percentage is the ratio of the QRE and gross receipts for the 1984-1988 tax years (base period).
- Start-up company rules may apply if the taxpayer did not exist in the United States in the base period or does not meet certain criteria for qualified research expenditures and gross receipts in the base period.
- Gross receipts of a foreign corporation that are not effectively conducted with a US trade or business are not counted.

The taxpayer can elect to use a second calculation method.

Alternative Simplified Credit (ASC)

The ASC method is effective for tax years ending after 31 December 2006. The ASC is equal to 14 percent for the tax years that ended after 31 December 2008 (12 percent for earlier years), calculated as follows:

- The ASC is the QRE for the tax year in excess of a base amount.
- The base amount is equal to 50 percent of the average QRE for the three preceding tax years.
- For example: ASC equals 14 percent of (current-year QRE less 50 percent of the (average QRE for the three preceding tax years)).
- When a taxpayer has no QRE in any one of the three preceding tax years, the R&D credit shall be equal to 6 percent of the QRE for the current year.

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The ASC method must be selected or revoked on a timely filed original tax return. The amount of the R&D credits, regardless of the calculation method, must be added to the taxpayer's taxable income unless an annual election is made to claim a reduced R&D credit (or reduced credit election). The reduced credit permits the taxpayer to reduce the amount of the R&D credit by 35 percent (the maximum corporate tax rate) without any add-back to taxable income.

In the case of the traditional credit, the net credit rate is effectively equal to 13 percent (i.e. 65 percent of 20 percent) of the current year's qualified research expenses in excess of the base amount. Considering the minimum base amount, the maximum traditional R&D credit is equal to 6.5 percent of total qualified research expenses in the credit year.

In the case of the ASC, the net benefit is effectively equal to 9.1 percent (i.e. 65 percent of 14 percent) of the current-year QREs in excess of the base amount.

If a taxpayer is a member of a controlled group of corporations or a group of trades or businesses under common control, then the R&D credit must be calculated on a group basis. The R&D credit must then be allocated among members of the controlled group. Non-US entities are included, but as a practical matter, they may have little to contribute to the controlled group computation.

Appendix – United States provides additional details about R&D incentives offered at the state level.

Grants and other incentives

In addition to the federal R&D credit, many state and local jurisdictions in the US provide R&D-related tax incentives, including current tax deductions, credits and exemptions or preferential treatment for property used in R&D activities for the purpose of state and local income, sales and property taxes. (See Appendix – United States.)

The federal government and many state and local governments also provide grants to conduct research. Many state and local governments also offer favorable loans, tax holidays and other incentives to persuade businesses to choose locations in their jurisdictions.

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Uruguay

Overview

The Uruguay government promotes R&D through many tax incentives.

Some of those incentives include:

- establishing R&D activities as one of the factors considered for granting Corporate Income Tax (IRAE) exemptions for productive investments under Investment Promotion Law; depending on the characteristics of the investment project, the IRAE exemption can amount to as much as 100 percent of the investment
- establishing increased deductions for certain expenses in R&D activities
- granting exemptions for certain technological services (e.g. software, biotechnology) when provided to foreign entities.

Other approaches include further developing the Intellectual Property Rights Law and strengthening the national innovation system to promote R&D development by means of funding to eligible projects.

Other tax incentives contemplated by Uruguay tax law in relation to R&D activities are as follows:

- The income obtained from R&D in the areas of biotechnology and bioinformatics as well as from the production of software and related services are exempt from IRAE, provided the goods and services generated from such activities are provided to foreign entities and used exclusively abroad.
- Uruguay's legal regime contemplates the existence of free zones (FZ) regulated by Law 15.921. Companies developing activities in these FZs (12 free zones are operative as of March 2013) receive a complete exemption from Uruguay taxes (only social security contributions and taxes on salaries are excluded). One of the main activities developed under this regime consists of R&D activities (e.g. software, technology) provided by FZ users to companies located abroad.
- Investigation/advisory services provided from Uruguay to foreign entities to be used exclusively abroad are considered exports, subject to VAT at a zero rate, with the possibility of recovering input VAT from suppliers.

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The National Agency for Research and Innovation (ANII) is a public agency that executes the government's strategies in relation to investigation and innovation, promoting, articulating and strengthening the national capacities for innovation in order to achieve productive and social development. Within this context, the ANII provides funding to private projects through several programs.

Another public agency with an important role in R&D is the Agriculture Investigation National Institute (INIA), the mission of which is to generate and adapt knowledge and technologies in order to contribute to the development of the national agriculture sector. Within its role, INIA collaborates with private sector initiatives related to investigation and research related to agriculture activities.

Definition of R&D

Decree No. 2/012, which regulates Investment Promotion Law Nº 16.906 of 07/01/98, implements a number of tax benefits for productive investment in Uruguay. The grant and amount of these benefits depend on certain indicators, including technical progress, growth and diversification of exports, generation of productive employment, facilitation of integration, fostering of small and medium-sized enterprises, improvement of the process of decentralization and/or use of clean technologies.

For the purposes of these provisions, R&D is defined as any creative activity developed systematically by an enterprise in order to increase the volume of knowledge (including about humankind, culture and society), as well as the use of such knowledge to create new applications.

The concept of R&D includes three activities: basic research, applied research and experimental development:

- Basic research consists of experimental or theoretical works to generate new knowledge or developments.
- Applied research consists of original works to acquire new knowledge for a practical application.
- Experimental development is research, based on existing knowledge, for the development of new materials, products or devices; new processes, systems and services; or the substantial improvement of existing ones.

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Uruguay
(continued)

Eligibility requirements

The following are considered eligible activities in terms of R&D for Investment Promotion Law purposes:

- acquisition of capital assets – equipment and machines
- transfers of technology – acquisition of patent rights, unpatented inventions, licensing, trademarks, designs, know-how
- consulting – scientific and technical services contracted to a third party for a technological innovation products' project
- engineering and industrial design specifications
- organizational design and management – design and implementation of models of productivity, improvement management, organization, logistics, distribution and marketing, and training of personnel for R&D projects.

For purposes of the exemptions under the Investment Promotion Law, eligible activities should be developed in the context of an investment project to be evaluated by the national Commission for the Application of the Investment Promotion Law (COMAP).

To request the tax benefits granted under Investment Promotion Law, the investment projects should be presented to the COMAP for its evaluation (the final grant of the exemptions and benefits is decided by the Ministry of Economy).

R&D expense deductions

Other benefits contemplated by Uruguay tax law consist of the deduction of certain R&D expenses for IRAE purposes at 1.5 times their actual amount. Such expenses include training in certain areas defined as priorities by the government (including agroindustry, production of energy, pharmaceutics, tourism, audiovisual industries, IT, communications, logistics, biotechnology, nanotechnology and environment).

In addition, R&D projects can receive the benefit of the increased deduction, subject to requesting COMAP's approval.

No general limit is set for these deductions.

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Venezuela

The climate for investment in Venezuela remains complex for most foreign companies. Some international companies are seeking to expand their operations in the country, and most foreign investments are currently concentrated in oil-related and other activities, directly involving the Venezuelan state as active participant.

Venezuela has the fifth largest economy in Latin America, growing at an average rate of 0.75 percent, due to the country's large oil reserves. Inflation remains high. In February 2013, the inflation rate was 22.10 percent (Central Bank of Venezuela).

The Venezuelan Income Tax Law (Article 27, Number 20) deems that the expenses for R&D effectively paid within the corresponding taxable year and actually made by the taxpayer are deductible from gross income.

Additionally, R&D matters in Venezuela are treated according to the Organic Law of Science, Technology and Innovation, partially reformed by the Venezuelan National Assembly on 16 December 2010. This law created a special contribution to legal entities located in Venezuela that register earnings equal to or exceeding 100,000 Tax Units (Unidades Tributarias), approximately equal to USD176,744. With the resources resulting from this contribution, a fund for science, technology and innovation was created, which is subject to the approval of the local corresponding authority. The fund is intended to finance scientific, technological and innovative projects conducted by the contributors of the fund and other entities.

Definition of R&D

For the purposes of the Organic Law of Science, Technology and Innovation, technological innovation is defined as the "scientific, technological and innovative activities and its applications necessary for the social, political and economic development of the country, as well as the necessary activities" (Article 23).

Eligibility requirements

R&D activities for technological innovation are innovation projects related to activities that involve the generation of new knowledge or technologies to be used in the country, particularly projects related to the following areas:

- substitution of raw materials or parts to reduce the import of such goods
- creation of national productive networks
- utilization of new technologies to increase the quality of productions units
- participation, research and innovation in universities and R&D centers that are related to the incorporation of new technological processes, organizational schemes, etc., and are principally developed to resolve public concerns
- technological transfer process
- process of scientific research done by universities or research centers

1 Exchange rate used: USD 1 = VEF 4.30 (KPMG in Venezuela)

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Venezuela
(continued)

- creation of spaces dedicated to scientific and technological research
- creation of databases and free software information systems
- promotion and public announcements of scientific and technological programs.

The legal entities located in Venezuela that generate, develop and/or transfer scientific, technological and/or cultural knowledge are eligible to benefit from the funds from the science, technology and innovation fund, provided that:

- The petitioners of funds present scientific, technological or innovative projects, plans, programs and/or activities that comply with the catalog of eligible activities specifically stated in Article 27 of the Organic Law of Science, Technology and Innovation.
- An annual investment plan is presented in the first trimester of each fiscal year.

The express approval of the corresponding administrative authority of the proposed R&D plan is required.

R&D expense deductions

The law states that in order to calculate the net global taxable income from the taxpayer's gross income, expenses incurred with the objective of generating earnings related to R&D expenses effectively paid in the fiscal term are deductible from the entity's taxable income, provided the following conditions are met:

- The expenses must be normal, in the sense that they should be customary.
- The expenses must be necessary, in the sense they are strictly needed to produce income.
- The expenses must directly relate to the generation of income.
- The expenses must be made in a territory of the country.

R&D tax credit

No tax credits provided for R&D activities.

Grants and other incentives

In addition to the above tax incentives, the Venezuelan national government is entitled by Article 36 of the Organic Law of Science, Technology and Innovation to design and execute different schemes of R&D incentives discretionally, principally for the formation and insertion of scientific and technological developers.

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Appendix — Canada

This table summarizes the provincial SR&ED incentives available to taxpayers.

Provinces	Rate	Description
Alberta	10 percent	The Alberta (SR&ED) tax credit is available to all business for the conduct of research and development leading to new, improved or technologically advanced products or processes. The credit is worth 10 percent of a company's eligible expenditures up to CDN4 million, for a maximum credit of CDN400,000. The Alberta SR&ED tax credit is in addition to the federal SR&ED credit. The tax is refundable, therefore; new companies can benefit from this tax whether they are earning enough income to pay taxes.
British Colombia	10 percent	Only CCPCs are eligible for the refundable tax credits. For qualifying corporations that carry on SR&ED in BC before 1 September 2014. Qualifying corporations may claim a refundable tax credit of 10 percent of the lesser of: • SR&ED qualified BC expenditures for the tax year, or • the expenditure limit (generally CDN3 million), as defined in the federal *Income Tax Act*. A non-refundable tax credit may be claimed for expenditures in excess of the expenditure limit. The non-refundable credit may also be claimed by other qualifying corporations and CCPCs that are not eligible for the refundable credit. The non-refundable credit for a tax year is 10 percent of the corporation's SR&ED qualified B.C. expenditure for the year less: • the amount of its refundable credit for that year, and • any amount renounced for that year.
Manitoba	20 percent	The Canada Revenue Agency administers the Manitoba SR&ED tax credit. Firms eligible for the provincial credit can apply for the federal SR&ED tax credit, with a possible refund. Unused credit can be carried forward for a period of ten years and carried back for up to three years. A company without a taxable income may prefer to use the refundable federal tax credit, and not use the provincial credit (in whole or part) to maximize a federal refund. Using the Manitoba SR&ED tax credit reduces the expenditures available for federal income tax credit, including the refundable investment tax credit. A corporation must be established in Manitoba and have an SR&ED contract with a qualified research institute. Those corporations not associated with a research institute can claim one-half of a credit for in-house SR&ED.
New Brunswick	15 percent	New Brunswick SR&ED tax credit of 15 percent is fully refundable. This credit benefits New Brunswick corporations even if the corporation owes no provincial taxes. The refund amount is equal to the amount of the credit in excess of tax otherwise payable under the *New Brunswick Income Tax Act*. The New Brunswick SR&ED tax credit, as with the previous tax credit, is applied to Scientific Research and Experimental Development (SR&ED) expenditures as defined by the federal *Income Tax Act*.
Newfoundland and Labrador	15 percent	This is a refundable credit of 15 percent of eligible expenditures made with respect to scientific research and experimental development activities carried out in this province. This credit is administered by Canada Revenue Agency.
Nova Scotia – SR&ED Tax Credits	15 percent	15 percent Nova Scotia SR&ED tax credits, a company may be eligible to have a portion (or all) of the credits paid out in cash, if there are no other taxes owing.
Ontario Business-Research Institute Tax Credit (OBRITC)	20 percent	Qualifying expenditures are capped at CDN20 million annually. The maximum annual credit is CDN4 million. Small businesses may claim the OBRITC in addition to the Ontario innovation tax credit.

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Appendix — Canada (continued)

Provinces	Rate	Description
Ontario Innovation Tax Credit (OITC)	10 percent	A company can claim a maximum OITC of CDN400,000 on an expenditure limit of CDN3 million. If the federal taxable income exceeds CDN500,000 or the taxable capital exceeds CDN25 million in the preceding year, the expenditure limit is reduced progressively. The limit is reduced to nil when the federal taxable income reaches the upper limit of CDN800,000 or when taxable capital reaches an upper limit of CDN50 million. Associated companies share the expenditure limit. This expenditure limit is reduced for a shorter taxation year.
Ontario Research and Development Tax Credit (ORDTC)	4.5 percent	The ORDTC provides a 4.5 percent tax credit based on eligible SR&ED expenses carried out in Ontario. The credit may be used to reduce corporate income tax. Any unused credit may be: • carried back three years, or • carried forward 20 years. **Eligibility** Corporations that incur eligible expenses may claim the credit. An eligible expense must be: • on account of SR&ED carried on at a permanent establishment in Ontario, and • a qualified expense in respect of SR&ED for purposes of the Federal Investment Tax Credit.
Québec – Provincial Tax Credit	17.5 percent to 37.5 percent	Fully refundable basic tax credit covering 17.5 percent - 37.5 percent of SR&ED wages paid in Québec. **Eligible expenditures** • wages of employees working directly on an eligible project • 50 percent of the fees paid to a subcontractor conducting SR&ED for a Québec business • 80 percent of all eligible SR&ED expenditures incurred under a research contract signed with a university or eligible research center • fees paid to a research consortium • expenditures made under a precompetitive research project in private partnership.
Québec – Tax Credit for SR&ED Salary for Biopharmaceutical Activities	27.5 percent to 37.5 percent	Your corporation must carry on one or more of the following activities related to human health: • integrated innovative pharmaceuticals • pharmaceutical manufacturing of generics • pharmaceutical manufacturing under contract • biotechnology (therapeutic or diagnostic products, biological processes and pharmaceutical research).
Saskatchewan	15 percent	For qualifying SR&ED expenditures, made after 31 March 2012, the SR&ED tax credit is: • fully refundable in respect of the first CDN3 million of such expenditures by a CCPC • non-refundable for all other such expenditures.

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Appendix — United States

The table below describes the general credit available to corporations that conduct in-house research and development activities in tax year 2013. The information is general in nature and based on authorities subject to change. Although states generally conform to Internal Revenue Code (I.R.C.) §41, some states have adopted modifications. For example, some states modify the definition of "qualified research expenditures" (QRE) and some conform with I.R.C. § 174 instead of § 41. Some states do not conform with the alternative incremental credit of I.R.C. § 41(c)(4) or the alternative simplified credit of I.R.C. § 41(c)(5). Also, many states have decoupled from the federal expiration date; i.e. the credit is available in those state even though the federal credit may have expired. In addition, many states do not conform with the I.R.C. as of the current year; care should be taken to determine whether the state has adopted recent changes to I.R.C. § 41 and other relevant sections of the I.R.C.

Additional restrictions or limitations may apply. For example, most states limit QREs to those incurred or apportioned to the state. Other incentive opportunities may be available. For example, some states provide additional credits for corporations engaged in certain industries, e.g. high tech, life sciences. Special rules may apply for utilization of credits by members of a combined or consolidated group. Credits also may be available for taxes other than income taxes and/or for entities engaged in activities in certain economically disadvantaged areas. Some states may require pre-approval and may limit the total amount of credits that may be awarded for all taxpayers for a given year. States vary on how credits may apply to pass through entities and in the case of combined or consolidated returns. You should discuss with your tax advisor the application of these provisions to your specific situation.

Provinces	Tax	Description
Alabama	N/A	Alabama generally does not provide a credit for R&D expenditures. However, Alabama allows a capital credit for investments in a research facility. Corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
Alaska	An apportioned percentage of the federal R&D tax credit	Alaska allows taxpayers to claim 18 percent of the amount of the federal R&D tax credit attributable to Alaska. Unused credits may be carried forward for up to fifteen years. Alaska conforms with the expiration date for the federal research credit.
Arizona	15-24 percent of state incremental QRE	Arizona offers an R&D tax credit equal to: • 24 percent of the first USD2.5 million of the Arizona incremental QREs over the base amount, plus • 15 percent of the incremental QREs in excess of USD2.5 million (subject to certain limitations). The credit is capped at USD2.5 million and unused credits may be carried forward for fifteen years. Small businesses (<150 employees) can apply for a refund of 75 percent of the credit in lieu of the carryforward. Additionally, taxpayers can claim a 10 percent credit for basic research payments to an Arizona state university. Arizona does not conform with the expiration date for the federal research credit.
Arkansas	20 percent to 33 percent of incremental QRE	Arkansas offers an R&D tax credits equal to either: • 33 percent of the incremental QREs that exceed a base amount for an eligible business that: – contracts with an Arkansas college or university to perform R&D (Taxpayer must have approval of the Arkansas Science and Technology Authority and the Department of Higher Education.). – operates in one of six targeted business sectors (Taxpayer must sign agreement with Department of Economic Development. Credits earned by targeted businesses may be sold.), or – performs R&D in a strategic research area (Taxpayer must sign agreement with Department of Economic Development; limited to USD50,000/year.). • 20 percent of the incremental QREs which exceed a base amount for an "in-house" R&D. Unused credits may be carried forward for up to nine years. Arkansas does not conform with the expiration date for the federal research credit.
California	15 percent to 24 percent of state incremental QRE	California offers a non-refundable tax credit equal to: • 15 percent of the California incremental QREs which exceed a base amount using the regular credit method (or 1.49 percent-2.48 percent for the Alternative Incremental Credit method), and • 24 percent of basic research payments to qualified organizations. Unused credits may be carried forward. California does not conform with the expiration date for the federal research credit. Note: • A change in the elected credit method may require approval of an accounting method change. • Gross receipts are narrowly defined as property held primarily for sale and delivered/shipped to customers in California services, passive income, etc., are not included). • Credits can be assigned between members of the combined reporting group.
Colorado	3 percent of state qualified incremental R&D expenditures	Colorado offers a non-refundable tax credit equal to 3 percent of the incremental research and experimental expenditures, as defined in I.R.C. § 174, that exceed the average research and experimental expenditures conducted in a Colorado enterprise zone in the prior two tax years. The amount of the credit that may be used in one year is limited to 25 percent of the original amount of the credit. The credit may be carried forward until the total amount is used. Colorado does not conform with the expiration date for the federal research credit.

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Appendix — United States (continued)

Provinces	Tax	Description
Connecticut	1 percent to 6 percent of state QRE or 20 percent of state incremental QRE	Connecticut offers a tax credit equal to 20 percent of its Connecticut research and experimental expenditures, as defined in I.R.C. § 174, that exceed the amount of such expenditures for the preceding income year. The credit may be carried forward fifteen years or may be exchanged for a credit refund equal to 65 percent of the value of the credit. Connecticut also offers a credit for state QRE, as defined under I.R.C. §§ 174 or 41. The non-refundable credit is as follows (amounts in USD): • 1 percent for QREs ≤ $50 million • $0.5 million + 2 percent over $50 million for QREs > $50 million - ≤ $100 million • $1.5 million + 4 percent over $100 million for QREs > $100 million - ≤ $200 million • $5.5 million + 6 percent over $200million for QREs > $200 million. Small businesses (generally with gross income not greater than USD100 million) may be allowed a 6 percent credit. Taxpayers with QREs in excess of USD200 million in research expenditures must reduce the R&D credit if workforce reductions exceed certain percentages. Taxpayers headquartered in an Enterprise Zone with revenues in excess of USD3 billion and more than 2,500 employees, qualify for a 3.5 percent credit. Taxpayers may only claim 1/3 of the calculated credit in any year, and the credit claimed cannot exceed 50 percent of the current year tax liability. Unused tax credits may be carried forward until fully used.
Delaware	10 percent of state incremental QRE or 50 percent of state's apportioned share of federal alternative incremental credit	Delaware offers an R&D tax credit which is equal to either: • 10 percent of the excess of the taxpayer's total Delaware QRE for the taxable year over the taxpayer's Delaware base amount, or • 50 percent of Delaware's apportioned share of taxpayer's federal research and development tax credit calculated using the alternative incremental credit method under I.R.C. § 41(c)(4). The amount of credit is limited to 50 percent of the qualified tax liability for the taxable year. The total amount of the credit, for all taxpayers, is capped at USD5 million per taxable year. When statewide applications exceed USD5 million, credits are allowed on a pro rata basis according to the amount of approved credits. Unused credits may be carried forward 15 years. Delaware does not conform with the expiration date for the federal research credit.
District of Columbia	N/A	The District of Columbia generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
Florida	10 percent of state incremental QRE	Florida offers an R&D tax credit equal to 10 percent of the amount of Florida QREs allowed under I.R.C. § 41 that exceed the base amount, defined as the average of the Florida QREs for the four tax years preceding the tax year for which the credit is determined. Beginning 20 March 2014, Florida corporate income taxpayers can apply for an R&D tax credit allocation for the 2013 calendar year. To participate in this program, taxpayers must qualify for the federal R&D tax credit and also meet the definition of a target industry business as defined in Florida statute §. 288.106. The total amount of credit granted to all business enterprises during any calendar year is capped, and the credits are allowed in the order in which the applications are received. R&D tax credit taken by a taxpayer may not exceed 50 percent of its Florida corporate income tax liability after all other credits have been applied. Unused credits may be carried forward five years. A federal research credit must be taken on the federal return filed by the taxpayer for the same year in which the Florida research credit is taken.
Georgia	10 percent of Georgia incremental QRE	Georgia offers an R&D tax credit equal to 10 percent of the Georgia incremental QREs that exceed a base amount, provided the taxpayer claims and is allowed a federal research credit under I.R.C. § 41 for the same taxable year. The credit shall not exceed 50 percent of the business enterprise's remaining Georgia net income tax liability after all other credits have been applied. If the credit does exceed this 50 percent limitation, the excess credit can be used to offset payroll taxes, effective for tax years beginning on or after 1 January 2012. Unused credits may be carried forward for up to ten years.
Hawaii	An apportioned percentage of the federal R&D tax credit	Hawaii offers an R&D tax credit to a qualified high technology business equal to an apportioned amount of the federal R&D credit based on the proportion of Hawaiian QREs as a percentage of the total federal QREs. Hawaii conforms with I.R.C. § 41 as of 31 December 2011. To claim a Hawaii credit for R&D the taxpayer must also claim the federal tax credit for increasing research activities.
Idaho	5 percent of Idaho incremental QRE and 5 percent of federal credit under I.R.C. 41(e)	Idaho offers an R&D tax credit equal to 5 percent of the excess QREs for activities performed in Idaho over a base amount and 5 percent of the basic research payments allowable under I.R.C. § 41(e) for basic research conducted in Idaho. Unused credits may be carried forward up to fourteen years. The Idaho credit may not be computed using the federal alternative incremental credit or the alternative simplified credit.
Illinois	6.5 percent of Illinois incremental QRE	Illinois offers an R&D tax credit equal to 6.5 percent of the Illinois incremental QREs that exceed a base amount. Unused credits may be carried forward for up to five years.

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Provinces	Tax	Description
Indiana	10 percent to15 percent of Indiana incremental QRE	Indiana offers an R&D tax credit equal to either: • 15 percent of the lesser of the Indiana incremental QREs that exceed a base amount or USD1 million plus 10 percent of the excess incremental QREs that exceed USD1 million • 10 percent of the portion of Indiana QREs that exceed 50 percent of the average Indiana QREs for the prior three years. The tax credit may be carried forward for up to ten years. Indiana adopts the definition of "qualified research expense" as defined in I.R.C. § 41 in effect on 1 January 2001.
Iowa	1.95 percent to 6.5 percent of Iowa incremental QRE	Iowa offers an R&D tax credit equal to either: • 6.5 percent of the state apportioned share of incremental QREs plus 6.5 percent of state apportioned share of basic research payments determined under I.R.C. § 41(e)(1)(A) for taxpayers electing the regular credit method, or • 4.55 percent of 50 percent of the Iowa incremental QRE that exceeds the average Iowa QREs over the three prior years for taxpayers electing the Alternative Simplified Credit method (or 1.95 percent of Iowa QREs when no prior year research has been conducted). Any excess R&D Activities Tax Credit is refundable or may be applied to the following year's estimated tax. Additional credit may be available for activities within an Iowa enterprise zone.
Kansas	6.5 percent of Kansas incremental QRE	Kansas offers an R&D tax credit equal to 6.5 percent of the difference between the actual Kansas qualified R&D expenditures for the year and the average of the actual Kansas expenditures made during the current year and the two previous tax years. The credit allowed in any one tax year is limited to 25 percent of the credit, plus any carry forward. Unused credit may be carried forward indefinitely.
Kentucky	N/A	Kentucky generally does not provide a corporate credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
Louisiana	8 percent to 20 percent of Louisiana incremental QRE, or 40 percent of Louisiana QRE or Small Business Innovation Research Grant award	Louisiana offers an R&D tax credit for QREs equal to either: • 8 percent of the difference between the Louisiana QREs for the taxable year, less the base amount for taxpayers employing 100 or more people • 20 percent of the difference between the Louisiana QREs for the taxable year less the base amount for taxpayers employing 50 to 99 people • 40 percent of Louisiana QREs, if the applicant is an entity that employs fewer than 50 people, or • 40 percent of the Small Business Innovation Research Grant award received during the tax year. The base amount is 70 percent of the average Louisiana QREs during the three preceding tax years. The taxpayer must claim the credit for federal tax purposes to qualify for the Louisiana credit.
Maine	5 percent to 12.5 percent of Maine incremental QRE	Maine offers an R&D tax credit for QREs equal to the sum of: • 5 percent of Maine QREs in excess of the average QREs for the previous three years, plus • 7.5 percent of basic research payments, determined under I.R.C. § 41(e)(1)(A) made in Maine. The credit is limited to 100 percent of the first USD25,000 in tax liability, prior to any credits, plus 75 percent of the tax liability in excess of USD25,000. Unused credit can be carried forward for up to fifteen years. Taxpayers that have substantial expansions of R&D may qualify for a "super credit," which is equal to the excess of QRE for the taxable year over the super credit base amount. The super credit base amount is the average spent on QRE by the taxpayer for the three tax years prior to 12 June 1997. This credit is limited to 50 percent of the taxpayer's tax due after all other credits are taken and may not reduce tax liability to less than the amount of the taxpayer's tax due in the preceding taxable year after the allowance of credits. Unused credits may be carried forward five years.
Maryland	3 percent of Maryland QRE or 10 percent of Maryland incremental QRE	Maryland offers an R&D tax credit equal to either: • 3 percent of Maryland QREs, not exceeding the Maryland base amount, or • 10 percent of Maryland QREs in excess of the Maryland base amount. The Maryland base amount is the federal base amount computed under I.R.C. § 41(c) that is attributable to Maryland, except that the "fixed base percentage" generally means the percentage of Maryland QRE for the four immediately preceding taxable years is of the gross receipts for those years. The total amount of credits allowed by the state is limited to USD4 million. If credits claimed exceed USD4 million, the credits will be awarded on a pro-rata basis (taxpayer's credits claimed relative to all credits claimed). Unused credits may be carried forward seven years. Maryland does not conform with the expiration date of the federal research credit.

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Appendix — United States (continued)

Provinces	Tax	Description
Massachusetts	10 percent of incremental QRE and 15 percent of basic QRE	Massachusetts offers an R&D tax credit equal to: • 10 percent of the Massachusetts incremental QREs which exceed a base amount, and • 15 percent of the basic research payments determined under I.R.C. § 41(e)(1)(a) that were for research conducted in Massachusetts. The credit is limited to 100 percent of the first USD25,000 of tax liability, before any credits, plus 75 percent of tax liability in excess of USD25,000. The credit may be carried forward 15 years. An additional, refundable research credit may apply for certain research in the area of life sciences.
Michigan	N/A	Michigan generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
Minnesota	1 percent of incremental QRE and 2.5 percent of QRE > USD2 million	Minnesota offers an R&D tax credit equal to: • 10 percent of the first USD2 million of the excess of Minnesota QREs, as defined by I.R.C. 41(b) and (e) and incurred in Minnesota, over the base amount, plus • 2.5 percent of all expenses for R&D in Minnesota over USD2 million. Credits cannot exceed the tax after application of all other credits and may be carried forward for up to fifteen years. An additional credit may apply for increasing research activities in a biotechnology and health sciences zone
Mississippi	N/A	Mississippi generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the states, including a full-time R&D employee credit and a rebate for investors' qualified research costs.
Missouri	N/A	Missouri generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state, including a tax holiday for the first five years of activity in the state.
Montana	N/A	Montana generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
Nebraska	15 percent	Nebraska offers an R&D tax credit equal to: • 15 percent of the Nebraska QREs allowed under I.R.C § 41, and • 35 percent of the basic research payments defined by I.R.C. § 41 made to a college or university in Nebraska. Nebraska QREs may be determined by dividing the amount expended in R&D in Nebraska by the total amount expended or by apportioning the amount of the credit on the federal income tax return to Nebraska based on the average property and payroll factors. The credit may be used to obtain a refund of state sales and use taxes or may be used as a refundable income tax credit. Unused credits may be carried forward twenty years.
Nevada	N/A	Nevada does not impose a business income tax. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.
New Hampshire	10 percent of incremental NH QREs that exceed the base amount	New Hampshire offers an R&D tax credit on qualified manufacturing R&D expenditures and is equal to the lesser of: • 10 percent of the incremental NH QREs which exceed a base amount • The proportional share of the credit if NH credits claimed by all taxpayers exceed USD2 million, or USD50,000. Taxpayers must apply for the credit. The credits will reduce the taxpayer's liability over the five subsequent years.
New Jersey	10 percent of incremental NJ QREs that exceed the base amount	New Jersey offers an R&D tax credit equal to: • 10 percent of the incremental NJ QREs which exceed a base amount, plus • 10 percent of basic research payments. For periods beginning on or after 1 January 2012, the amount of credit applied cannot reduce the tax liability to less than 50 percent of the amount otherwise due and may not reduce the statutory minimum tax. Unused credits may be carried forward for up to seven years. The credit is based on IRC § 41 as it existed on 30 June 1992.
New Mexico	N/A	New Mexico offers an R&D tax credit for small businesses (<25 employees and < USD5 million revenue) that applies against the gross receipts, use and withholding taxes equal to ether: • The sum of all its gross receipts taxes, or • 50 percent of withholding taxes paid on behalf of employees.
New York	The lesser of 50 percent of the federal R&D credit attributable to NY activities or 3 percent of NY R&D expenditures	New York offers taxpayers the opportunity to apply to the Excelsior Jobs Program, which provides a credit equal to 50 percent of their federal R&D tax credit under I.R.C. § 41 attributable to NY activities, capped at 3 percent of the taxpayer's total New York R&D expenditures. If the federal credit has expired, the NY credit will be computed based on federal law as it existed in 2009. Unused credits may be carried forward for up to ten years. Credits may be refundable.

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Provinces	Tax	Description
North Carolina	Generally 1.25 percent to 3.25 percent of NC R&D expenditures.	North Carolina offers and R&D tax credit equal to either: • 1.25 percent for NC R&D expenditures < USD50 million • 2.25 percent for other NC R&D expenditures ≥ USD50 million and ≤ USD200 million • 3.25 percent for other NC R&D expenditures > USD200 million • 20 percent for any North Carolina University R&D expenditures, or • 35 percent of eligible expenditures for R&D performed in an Eco-Industrial Park. Unused credits may be carried forward for up to fifteen years. The credit claimed may not exceed 50 percent of the tax after deducting all other credits.
North Dakota	25 percent on first USD100,000 of ND QREs that exceed the base amount, plus 8 percent, 18 percent or 20 percent on the excess ND QREs on excess	North Dakota offers an R&D tax credit based upon varying percentages depending on which ND QREs are first incurred. The credit is 25 percent of the first USD100,000 of ND QREs in excess of the base amount and a varying percentage of ND QREs in excess of the base amount that exceed USD100,000: • If ND QREs were first incurred and a credit claimed prior to 2007, the applicable percentage is 18 percent through 2016 and 8 percent thereafter • If the ND QREs were first incurred, and a credit claimed, in 2007 – 2010, the applicable percentage is 20 percent through 2016 and 8 percent thereafter • If the ND QREs were first incurred, and a credit claimed, in 2011 or after the applicable percentage is 8 percent. Unused credits may be carried forward for up to fifteen years and back three years.
Ohio	7 percent of incremental OH QREs	Ohio offers an R&D tax credit to be applied against the Commercial Activity Tax equal to: • 7 percent of the amount by which Ohio QREs exceed the three year average of such expenses, and • The qualified R&D loan payments made during the prior year, up to USD150,000 (for taxpayers who borrowed money through the state's R&D loan fund – requires approval by the state). Unused credits may be carried forward for up to seven years.
Oklahoma	N/A	Oklahoma generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may be eligible for other credits, including a job credit of USD500 for each new employee added in a year engaged in R&D (capped at 50 employees per year).
Oregon	5 percent of incremental OR QREs or 10 percent of OR QREs which exceed 10 percent of OR sales	Oregon offers an R&D tax credit equal to either: • 5 percent of QREs and basic research payments over a base amount for R&D conducted in Oregon (capped at USD1 million), or • The amount of QREs which exceed 10 percent of Oregon sales (capped at USD10,000 times the percentage that the qualifying R&D expenditures exceeding 10 percent of Oregon sales, or USD1 million, whichever is less). Unused credits may be carried forward for up to five years.
Pennsylvania	10 percent to 20 percent of incremental PA QREs	Pennsylvania offers an R&D tax credit equal to 10 percent of the amount by which the corporation's QREs exceed the Pennsylvania base amount. Taxpayers have to apply for the credit. Small businesses (<USD5 million net book assets) may apply for a 20 percent credit. Unused credits may be carried forward for up to fifteen years, or sold to another taxpayer (capped at 75 percent of the purchasing taxpayer's tax liability). The total credits approved by the state cannot exceed USD55 million in the aggregate. Unused credits may be carried forward four years.
Rhode Island	10 percent of RI TPP used in R&D and 16.9 percent to 22.5 percent of incremental RI QREs	Rhode Island offers an R&D tax credit equal to: • 22.5 percent of the first USD111,111 of the incremental QREs which exceed a base amount [the USD111,111 is per the regulation, the statute says USD25,000], and • 16.9 percent of the incremental QREs which exceed a base amount by more than USD111,111. Taxpayers may also claim a credit equal to 10 percent of tangible, personal property (including buildings or components of buildings) that are used principally for the conduct of R&D in Rhode Island. These credits cannot reduce the statutory minimum amount, and unused credits may be carried forward for up to seven years. The credit is limited to 50 percent of the tax after all other credits are taken.
South Carolina	5 percent of QREs for research conducted in SC	South Carolina offers an R&D tax credit equal to 5 percent of the taxpayer's QREs for R&D conducted in the state. The credit taken in any one taxable year may not exceed 50 percent of the taxpayer's remaining tax liability after all other credits have been applied. Unused credits may be carried forward for ten years. The South Carolina credit may only be generated in a year in which a federal credit is taken, so SC conforms to the expiration date of the federal credit.
South Dakota	N/A	South Dakota does not impose a corporate income tax, except on financial institutions. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.

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Appendix — United States (continued)

Provinces	Tax	Description
Tennessee	N/A	Tennessee generally does not provide a credit for R&D expenditures. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state, including a jobs tax credit.
Texas	5 percent of incremental Texas QREs	Texas offers R&D incentives in the form of either a: • Franchise Tax Credit – equal to 5 percent of incremental QREs incurred in the state which exceed the three year average of such expenses, or • Sales & Use Tax Exemption – available on the purchase or lease of depreciable, tangible, personal property used in qualified research in Texas. The franchise tax credit is effective for reports originally due on or after 1 January 2014. The credit may be carried forward for 20 reports. The credit may not exceed 50 percent of the amount of the franchise tax.
Utah	5 percent of Utah QREs that exceed a Utah base amount, 5 percent of payments for Utah research, and 7.5 percent to qualified organizations for Utah basic research	Utah offers a non-refundable R&D tax credit equal to: • 5 percent of Utah QREs that exceed the Utah base amount (14-year carryforward period) • 5 percent of payments to qualified organizations for basic research conducted in Utah that exceed the Utah base period amount (14-year carryforward period) • 7.5 percent of basic research payments to a qualified organization for research conducted in Utah (may not be carried forward). The credits do not include the alternative incremental credit under IRC § 41(c)(4).
Vermont	30 percent of the federal credit	Vermont offers an R&D tax credit equal to 30 percent of the amount of the federal tax credit allowed under I.R.C. § 41(a) and which are made within this state. Unused credits may be carried forward for up to ten years. Vermont conforms with the expiration date of the federal credit. Vermont also offers an economic advancement sustainable technology R&D credit.
Virginia	15 percent of the first USD167,000 in incremental VA QREs	Virginia offers a refundable R&D tax credit equal to either: • 15 percent of the first USD167,000 of the incremental Virginia QREs that exceed a base amount, or • 20 percent of the first USD175,000 of the incremental Virginia QREs that exceed a base amount for R&D conducted in conjunction with a Virginia college or university. If the total credits applied for in a year in VA exceed USD5 million, taxpayers may receive a prorated credit.
Washington	N/A	Washington offers an R&D tax credit to taxpayers against their Washington business and occupation tax liability who: • conduct R&D in the state within one of five specific fields (advanced computing, advanced materials, biotechnology, electronic device technology, environmental technology), and • whose Washington QREs exceed 0.92 percent of their taxable income in that year. The credit is equal to 1.5 percent of the QREs which exceeds 0.92 percent of their taxable income (capped at USD2 million and unable to be carried forward).
West Virginia	3 percent of the annual qualified WV R&D expenses or, if greater, 10 percent of incremental WV QREs	West Virginia offers an R&D tax credit equal to the greater of: • 3 percent of the annual qualified West Virginia R&D expenditures • 10 percent of the incremental QREs which exceed a base amount, which is the average of the taxpayer's West Virginia QREs for the previous three years or the number of years the taxpayer has filed a tax return (if less than three years). Qualified R&D expenditures are the sum of a percentage of the cost of depreciable property purchased for conducting qualified research activities in West Virginia and other qualified R&D expenses allocated to West Virginia. A written application for certification of the R&D project must be submitted to the Tax Commissioner by the due date of the return. Unused credits may be carried forward ten years.
Wisconsin	5 percent to 10 percent of incremental WI QREs or amounts paid to construct and equip new or expanded R&D facilities	Wisconsin offers an non-refundable R&D tax credit equal to: • 5 percent of the incremental Wisconsin QREs which exceed a base amount • 5 percent of the amount paid to construct and equip new facilities or expand existing facilities for qualified R&D activities. This credit is no longer applicable for tax years beginning after 31 December 2013 but credits previously generated may be carried forward into such years. Unused credits may be carried forward for up to 15 years and the amount of credit increases to 10 percent where the R&D relates to designing internal combustion engines, energy efficient lighting systems, building automation/control systems, or batteries for hybrid vehicles. In addition, taxpayers may be eligible for a non-refundable, "super" R&D credit equal to the amount of QREs which exceeds 1.25 times the average QREs paid or incurred in the previous three taxable years. Unused credits may be carried forward for up to five years. No credit may be generated in tax years beginning after 31 December 2013, but credits previously generated may be carried forward into such years.
Wyoming	N/A	Wyoming does not impose corporate income tax. However, corporations engaged in R&D activities may qualify for credits against other taxes imposed by the state.

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KPMG's Americas R&D Incentives Services

KPMG's R&D Incentives practice is comprised of a cross-border network of experienced engineers and accountants located in member firms around the world, including the Americas region. Addressing local issues with a global mindset, the mission of the practice is to help our member firms' clients capitalize on R&D incentives and benefits on a global scale to help create long-term competitive advantage.

Our network of professionals assists our member firm clients in realizing significant tax savings related to their investments in R&D in various countries and perform coordinated multi-jurisdictional R&D incentives reviews and analyses. Our professionals think beyond tax and aim to provide member firm clients with insightful business strategies that help to enable the identification and documentation of R&D activities on a real-time basis, thereby maximizing R&D benefits.

Decisions on where to conduct R&D activities involve many factors, including the availability of the necessary talent and the relative costs of labor, materials and facilities. In addition, R&D incentives and the impact of the R&D costs on other available tax benefits may play a significant role in evaluating the after-tax cost of performing R&D in one country versus another.

Accordingly, our Americas R&D Incentives team works with our international tax professionals to help member firm clients manage taxation issues arising from:

- cross-border R&D arrangements
- transfer pricing
- intellectual property status and transfers
- withholding taxes
- foreign tax credits
- duties and tariffs.

KPMG's network ideally positions us to assist clients in creating long-lasting value by evaluating both the available R&D incentives and the impact of R&D costs on other available tax benefits.

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Contacts

Carlo Ciaramitaro
Partner Tax, R&D Tax Incentive Practice Leader, KPMG in Canada and Americas Region
KPMG in Canada
T: + 519-251-3522
E: cciaramitaro@kpmg.ca

Christine Kachinsky
Federal Tax Partner, Accounting Method and Credits
KPMG in United States
T: + 212 -872-2187
E: ckachins@kpmg.com

Sergio Schuindt Da Silva
R&D Tax Incentive Practice Leader
KPMG in Brazil and South America
T: + 55 112 183 3124
E: sschuindt@kpmg.com.br

kpmg.ca/rdincentives

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