

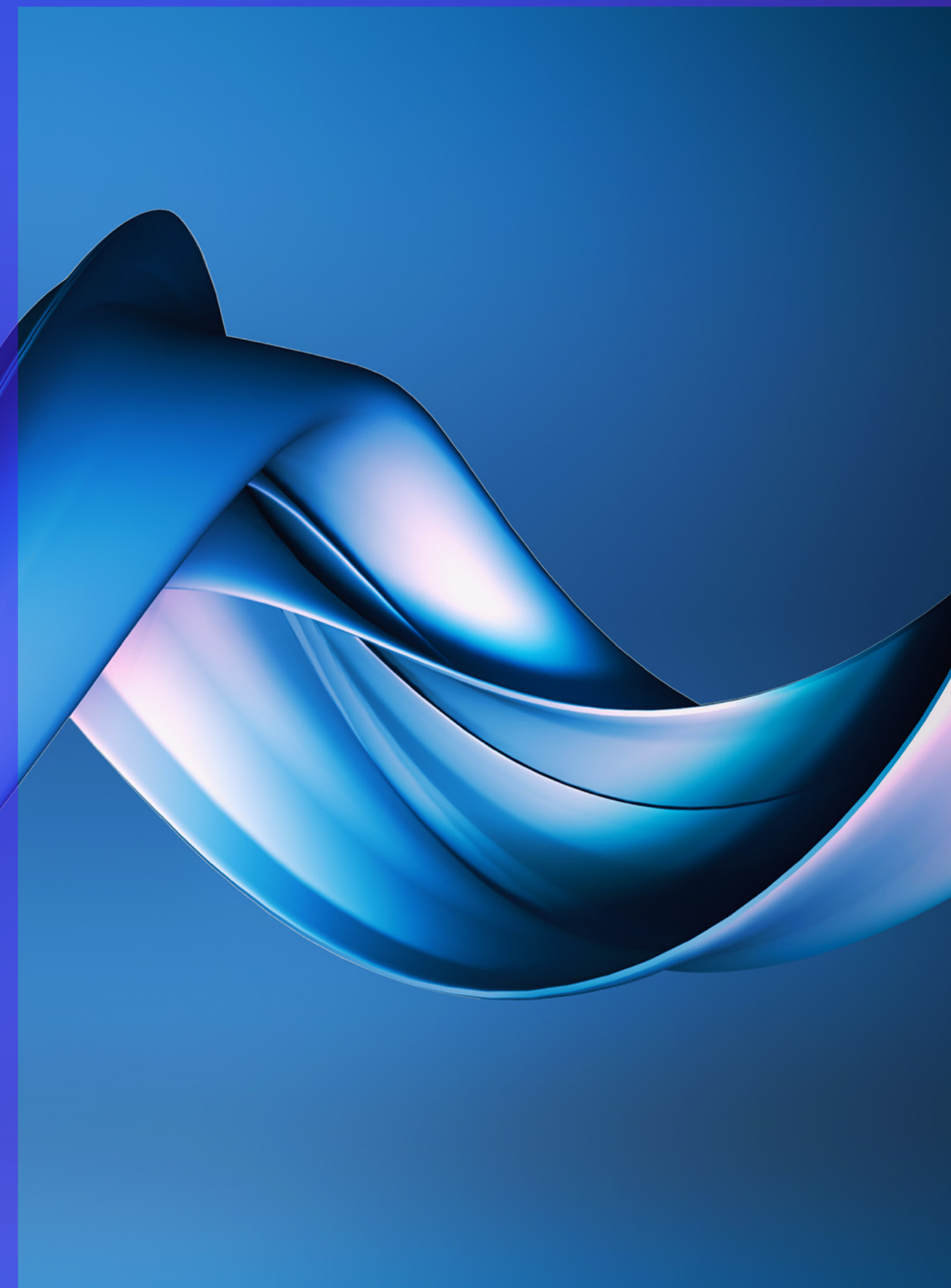


Tax incentives for R&D

Choose the right professional services firm— one which has depth, knowledge, and insight in the field of R & D to help you address your most pressing issues.

[kpmg.ro](https://www.kpmg.ro)

2022



Whether you are already applying for the Research and Development ('R&D') tax deduction or just considering your eligibility, it is essential to remember that R&D does not just happen in the laboratory – quite often it is the work a company would consider to be a day-to-day activity: developing a new product; devising or making improvements to a production process or trying out new material to reduce costs.

It is also a way to stay ahead of peers by incorporating sustainability concepts into your products and services.

As the list of eligible expenses is extensive, and with a potential saving of up to 8% of qualifying expenditure, it is worth checking if your activities meet the criteria.

A favorable environment for R&D activities globally, in the EU and in Romania

R&D is a significant global factor in driving innovation, productivity gains and economic growth. The Romanian Government is committed to an ambitious target for R&D investment of 1% of GDP by 2027 (currently, the level is 0.5%*).

The Government is aware that it is important to ensure that R&D tax incentives provide excellent targeted support to R&D activities undertaken in Romania.

Moreover, the EU Green Deal considers R&D a key sector to accelerate climate neutrality efforts and its providing support for such activities through the Horizon Europe programme.

**according to official data published by the European Commission and the National Strategy for Research, Innovation and Intelligent Specialization 2022-2027*

What is R&D?

While many activities carried out by companies could be considered R&D, identifying and quantifying eligible activities for the purposes of the R&D tax credit can often be quite complex.

The applicable legislation and related guidelines state that qualifying R&D activities must:

- 01 Aim at new findings (be novel)
- 02 Be based on original, not obvious, concepts and hypotheses (be creative)
- 03 Be uncertain about the final outcome (be uncertain)
- 04 Be planned and budgeted (be systematic)
- 05 Lead to results that could possibly be reproduced (be transferable and/or reproducible)
- 06 Involve applied research or experimental development

What fields of science or technology could qualify for the deduction?

Fields of science and technology for which R&D tax incentives might apply could include:

- 01 Natural sciences – e.g. food science, chemical sciences, biological sciences.
- 02 Engineering and technology – e.g. mechanical, material, software development, electronic, electrical and communication engineering.
- 03 Medical sciences – e.g. basic medicine, clinical medicine, health sciences.
- 04 Agricultural sciences – e.g. forestry, fisheries, veterinary medicine.
- 05 Banking – e.g. development of a new faster trading system, development of software systems to meet reporting requirements.

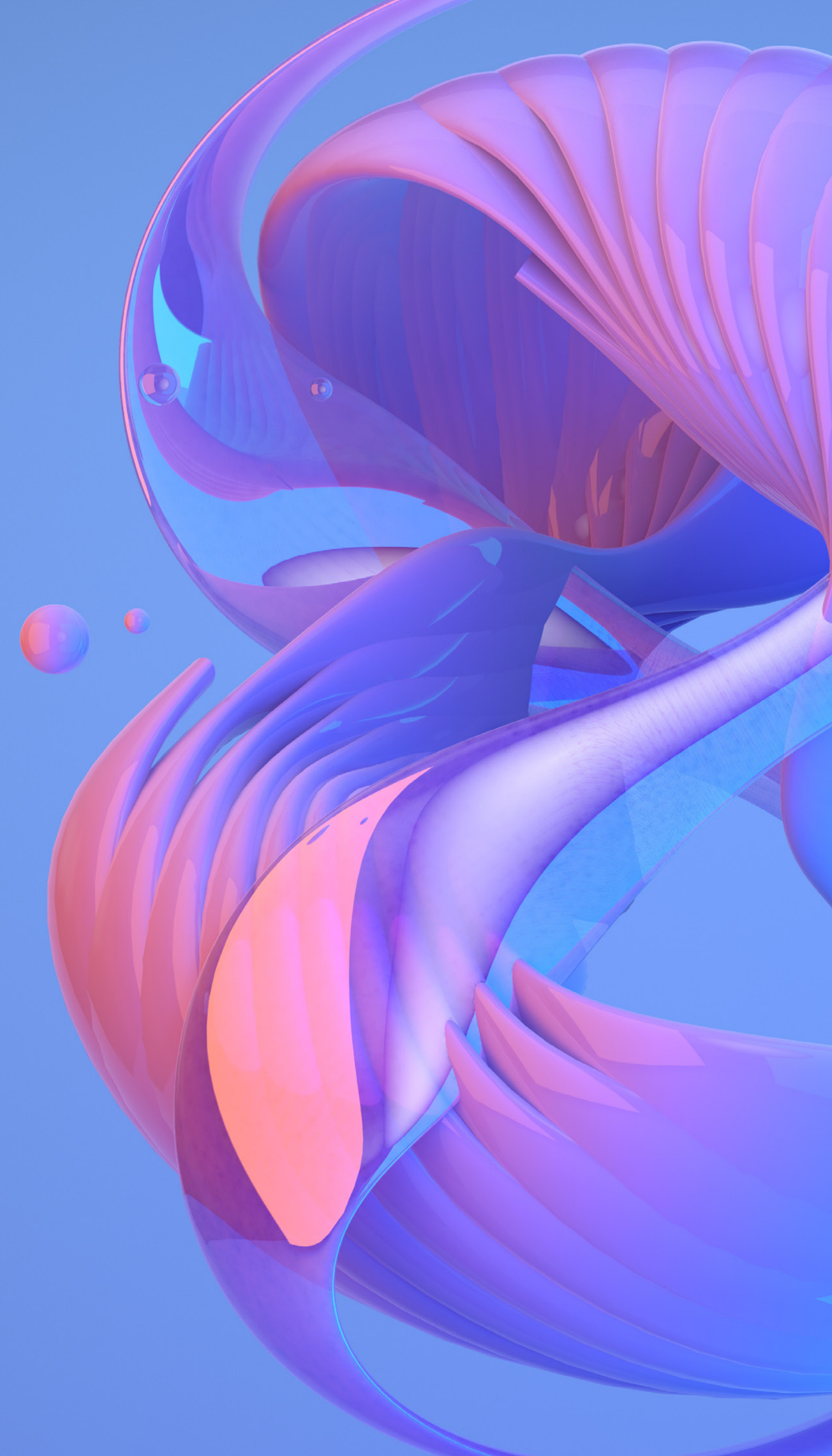
Horizon Europe programme of the EU is also pedging 35% of the total budget of euro 95.5 billion to R&D for climate change solutions.

Common errors

- 01 Eligible activities have been overlooked and your deduction may be undervalued.
- 02 Your entitlement to apply the deduction has not been established properly; this is a complex technical area of tax which interacts with other fields, usually engineering.
- 03 R&D activities have not been properly identified or documented in accordance with relevant tax legislation and related guidelines.
- 04 Insufficient supporting documentation is in place to justify your deduction in the case of a tax audit.
- 05 Inclusion or treatment of certain types of activities/expenditure is incorrect.

As the qualifying activities are subject to certain criteria and conditions, companies should investigate thoroughly with a tax advisor prior to submitting a corporate tax return which includes a deduction for R&D activities.

Considering our extensive experience advising clients on this issue, KPMG in Romania, together with the partners we cooperate with on technical issues, is in a strong position to assist you in relation to the application of the available incentives.



The number of companies applying the R&D tax incentives is increasing

You could be entitled to a reduction in your corporate income tax, which is analogous with an 8% 'discount' of your qualifying R&D spend.

Personal income tax exemption can help attract the best talent.



Corporate income tax: 50% supplementary deduction of eligible R&D expenses

Companies applying for this incentive must cumulatively meet certain conditions:

- 01 the tax incentives may only be granted for eligible R&D activities ('applied research' or 'technological development') which are relevant for the taxpayer's activity.
- 02 the application of the corporate tax deduction must be documented in a project, which includes certain minimum mandatory elements as detailed within the tax legislation.



Personal income tax exemption on salary income for activities conducted on R&D and innovation projects

Companies applying for this incentive must meet several conditions specifically provided for under the law.

The tax exemption can be applied for employees carrying out an R&D activity based on an individual labor contract, a work relationship, a special statute provided by law or an assignment agreement concluded with or at a public or private entity/ institution included in the national system for R&D .

R&D

the key to productivity and growth performance

01 Romania has taken a step forward by introducing the National Registry of Certified Experts for the certification/expertise of R&D activities.

KPMG in Romania works with experts included in this Registry to provide certification services in

02 support of the application of R&D incentives, as well as more comfort for clients who intend to apply for the incentives.

As the practice of the tax authorities during tax audits has often not been consistent, it is more important than ever for companies to understand the applicable legislation and assure themselves that applying for these tax incentives will not generate unacceptable tax risks.

How can KPMG help you?

01 Pre-R&D advice

02 Tax assistance services on applying the incentive (including analysis and documentation)

03 Technical description ("R&D Defense File")

04 Technical and tax eligibility analysis

05 Financial calculation

06 Support in tax inquiries and inspections

We can ensure you are making the most of your R&D tax incentives and are fully prepared for a Tax audit

KPMG's R&D Incentives Practice

We prepare R&D documentation on either a contemporaneous or retrospective basis, tailored to each client's requirements.

Our bespoke methodologies are tried and tested.



KPMG in Romania can provide an integrated tax and technical team.



We are closely involved in dialogue with the authorities on legislation.



KPMG in Romania works together with external qualified experts, from the National Registry of R&D experts.



We form part of the KPMG global network and hence can easily draw on the knowledge of R&D Incentives practices in other KPMG member firms.



Our R&D specialized team is Romania's largest, longest established and most experienced R&D incentives practice.



We have a multidisciplinary team of professionals, specializing in tax, finance, science and engineering.



We have considerable experience in supporting clients preparing for or undergoing tax audits.



We have worked with companies of many sizes and scales from a wide range of sectors.



KPMG is very well positioned on the market, with a strong reputation for providing high-quality and integrated services in relation to R&D incentives.

We also have extensive experience in helping clients benefit from the personal income tax exemption for individuals involved in software development related activities, which presents multiple similarities with the exemption for those involved in R&D and which served as model for this incentive.

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