



R&D

A motor for
economic growth

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In July 2016, the Romanian Government approved an Ordinance which introduces a new tax incentive into the Fiscal Code with the aim of encouraging research and development (R&D). According to this new provision, **salary income earned as a result of carrying out research and development is exempt from personal income tax.**

This comes as part of the Government's efforts to implement new measures to encourage the private sector to invest more in the development of R&D activities, while at the same time to give incentives to young researchers to stay in Romania as well as to encourage those who have already emigrated to countries with strong R&D sectors and significantly higher salaries to return home.

[The new tax exemption](#)

The new incentive applies from August 2016, not only to R&D institutes and companies, but also to firms from a wide range of industries, which do not undertake R&D as their main activity. The new provision may result in cost savings for companies and/or higher incomes for certain employees.

Although the income tax exemption for employees involved in software creation-related activities was used as a model for implementing this new tax incentive, one of the main differences is that it applies to salary income obtained only from carrying out applied research and technological development activities within formally defined applied research and technological development projects. Hence, unlike IT employees for whom the income tax exemption applies for the entirety of their salary income, depending on the situation, R&D employees may only benefit from the tax exemption for a part of their salary.

To benefit from the exemption, the employees must:

- Be employed in a unit specializing in R&D within the employer's organisation
- Carry out applied research and technological development activities within at least one formally defined applied research and technological development project
- Hold a bachelor's degree or diploma which acknowledges the completion of long-term university studies.

The exemption also applies to employees of foreign companies, seconded to Romania to carry out applied research and technological development activities.

One of the main difficulties in applying the existing measures related to R&D activities is the lack of clarity as to how R&D activities are defined. To solve this, the Ministry of Education will set up an R&D Experts Registry. Companies, employees and the tax authorities will be able to consult with registered experts to assess whether certain R&D projects qualify as applied research and technological development. Costs related to the specialists who carry out these assessments will be covered by the state.

Although the impact on the development of R&D activities is expected to be modest, this new tax exemption aims to counter the decrease in the number of researchers and encourage young graduates to enter this field of activity. Some statistics say that more than half of the R&D personnel in Romania are older than 40.

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Other existing incentives and sources of funding for R&D

The new measure complements existing state-aid schemes and tax incentives:

- Deduction of R&D expenses through accelerated depreciation of R&D equipment and an additional deduction of 50% which may be granted for eligible expenses which can be directly attributed to R&D activities..
- State funding granted as part of the National Plan for Research, Development and Innovation Activities for 2015-2020, which, among other strategic directions, aims to increase the productivity of enterprises through research, development and innovation.

In addition to this state support, EU non-refundable co-financing is also available to Romanian companies, through the POC programme (although these funds have proved difficult to attract in the past). This funding can comprise:

- Up to EUR 20 million for projects of up to EUR 50 million developed by R&D departments of large, medium-sized and small enterprises.
- Up to EUR 6.5 million for projects developed by Innovation Clusters.
- Up to EUR 200,000 for projects developed by start-up/spin-off innovative companies.
- Up to EUR 1.5 million for projects developed by newly setup innovative companies.

Another important source of EU funds is the Horizon 2020 programme, designed to encourage research and innovation.

On the look-out

Romania currently ranks last in the EU for innovation. The country has consistently decreased its R&D expenditure in the last 8 years (less than 0.4% of GDP in 2013 and decreasing, according to EUROSTAT - Key Figures on Europe - 2015 edition, while the target set for 2020 is 3%). EU reports list Romania among the countries with the lowest levels of R&D expenditure.

However, according to the Government's strategic project "Competitive Romania", R&D is considered to be one of the catalysts which will create the right conditions for economic development. "Healthy economic growth can no longer be obtained through monetary, fiscal and wage policies which encourage consumption, rather it can only be obtained by encouraging production activities anywhere in Romania¹."

Hence, the Government plans to define and implement further measures to encourage the development of the R&D sector and innovation in Romania.

If we are to look at the example of countries which lead in R&D sector development, we can see that R&D expenditure as a percentage of GDP is significantly higher (i.e. 2 – 3.5% for leading countries, as opposed to less than 0.4% for Romania). According to the European Innovation Scoreboard 2016, Innovation Leaders and Strong Innovators are characterised by a public sector which is well suited to the development of R&D activities and by the availability of risk capital for private firms to develop new technologies. In these countries, companies invest more in innovation activities, both for science-based R&D activities and non-R&D innovation activities, including investment in advanced equipment and machinery.

1) *Competitive Romania: A project for sustainable economic growth*, issued by the Romanian Government led by prime-minister Dacian Cioloș

Through direct cooperation between the Government and representatives of the private sector, better targeted funding schemes and tax incentives could be defined to encourage private companies in Romania to increase their investment in R&D.



Furthermore, a high share of the workforce in these countries has the skills needed to participate in and further develop the knowledge-based economy.

Although the measures taken by the state in these countries may differ significantly, based on an EU Study on R&D Tax Incentives from 2014, the preferred type of support provided seems to consist of:

- Direct subsidies and non-repayable cash grants, mainly awarded on a “per project” basis (e.g. Germany, Finland, Denmark).
- Tax credits, either incremental or volume-based (e.g. Japan, Austria, Sweden).

Overall, however, these countries have an embedded culture of innovation, both in the public sector and within private companies, which combine in-house innovation with joint innovation. According to the European Innovation Scoreboard 2016, the innovation systems in these countries are open for cooperation with a broad range of partners, researchers are well networked at an international level, and the quality of research output is very high.

Conclusion

Although the new income tax exemption for employees carrying out applied research and technological development activities may not be enough to have a significant impact on the development of the R&D sector, by direct cooperation between the Government and representatives of the private sector, better targeted funding schemes and tax incentives could be defined, to encourage private companies in Romania to increase their investment in R&D.

Furthermore, the new measures may solve some of the uncertainties which have discouraged companies from applying the existing tax incentives and perhaps create better awareness of incentives and funding available, consequently creating the right conditions for more companies to apply them in the future.



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