



Global R&D Incentives Guide

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Preface

KPMG LLP is happy to present our Global R&D Incentives Guide. This guide provides an overview of R&D incentives available throughout the world, highlighting incentives that could present significant value to your organization.

Research and Development (R&D) tax incentive schemes are widely adopted in advanced economies. As more countries have recognized the importance of research and innovation for economic growth, they have added R&D incentives and increased their support of R&D through the use of grants and other forms of funding. Currently, over 70 jurisdictions have some form of an R&D incentive, and some countries offer multiple R&D incentives.

The effectiveness of R&D tax incentives has been the subject of much global debate and is well documented in academic studies and research. Although some early studies challenged the effectiveness of R&D incentives, the majority of the studies find that R&D incentives increase private investment and innovation, influence the location where companies conduct R&D and, in turn, manufacture their products, and also lead to a number of societal benefits.

For each jurisdiction and primary incentive, the KPMG Global R&D Incentives Guide provides the following:

- Overview or summary of the incentive and relief provided
- Local definition of R&D
- Eligibility requirements
- Relevant dates, including statutory filings
- Overview of the registration process and administrative and jurisdictional requirements
- Summary information on other applicable or related incentives

KPMG is ready to assist clients in navigating the available global R&D incentives, regardless of industry, size, or profitability. KPMG provides assistance at all stages of the business or product lifecycle, including the following:

Start-up phase

- Identifying cash flow opportunities (refundable credits and other incentives that can be monetized)
- Tracking of data/documentation for future claims
- Planning for future investments and decisions

Growth phase

- Enhancing credits/incentives
- Structuring to enhance benefits and other tax positions impacted by investments

Maturity phase

- Automating processes
- Controversy and sustaining incentives
- Managing credits and incentives

Because these incentives are often localized and technically complex, we provide the contact information for our global member firm specialists who are available to help review and navigate the incentives available in their respective countries.

Global Research & Development Services team

The R&D Incentives practice at KPMG comprises a cross-border network of experienced engineers, accountants, and tax professionals located in member firms around the world. Addressing local issues with a global mindset, the mission of the practice is to help our clients maximize R&D incentives and benefits on a global scale to help create a competitive advantage.

Our network of professionals assists our clients in identifying, realizing, and substantiating significant tax savings related to their investments in R&D in various countries. Our approach includes a coordinated multijurisdictional R&D incentives review and analysis. Our professionals think beyond tax and aim to provide our clients with insightful business strategies that help enable the identification and documentation of R&D activities on a real-time basis, thereby increasing benefits and driving higher returns on investments.

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 tax positions may play a significant role in evaluating the after-tax cost of performing R&D in one country versus another.

Accordingly, our R&D Incentives team works to help clients manage taxation issues arising from:

- Cross-border R&D arrangements and tax considerations
- Transfer pricing
- Intellectual property (IP) status and transfers
- Withholding taxes
- Cross-border tax considerations
- Foreign tax credits
- Duties and tariffs.

The KPMG network ideally positions us to assist our clients in creating long-lasting value by evaluating both the available R&D incentives and the impact of R&D investments on overall tax posture relative to the business lifecycle.

For additional information regarding these services, do not hesitate to contact us.



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Contents

Pillar Two – The impact of a Global Minimum Tax on R&D credits and incentives	1
Summary of available R&D incentives	2
Argentina	5
Australia	10
Austria	14
Belgium	18
Brazil	22
Canada	27
Chile	31
China	34
Colombia	38
Croatia	42
Czech Republic	45
Denmark	48
Finland	51
France	54
Germany	59
Greece	62
Hong Kong (SAR), China	66
Hungary	69
Iceland	72
India	75
Ireland	80
Israel	85
Italy	90
Japan	94
Lithuania	98
Luxembourg	102
Malaysia	106
Netherlands	110
New Zealand	114
Norway	118
Papua New Guinea	121
Peru	123

Philippines	126
Poland.....	129
Portugal	132
Romania	136
Serbia	139
Singapore	144
Slovakia	148
South Africa.....	150
South Korea.....	153
Spain.....	157
Sri Lanka.....	161
Sweden	163
Switzerland.....	166
Taiwan	169
Thailand	173
Türkiye.....	177
United Kingdom.....	182
United States.....	185
Vietnam	189
European Union Research and Development Funding	194
Contacts	198

Pillar Two – The impact of a Global Minimum Tax on R&D credits and incentives

In the second half of 2021, more than 130 jurisdictions agreed to a series of proposals impacting international taxation. One of these proposals involved the introduction of a Global Minimum Tax of 15 percent. This involved the calculation of a “top-up tax” which could be applied at three levels: the domestic level, which, if it satisfies the rules, is called a Qualified Domestic Minimum Top-up Tax (QDMTT); the parent level, which is called the Income Inclusion Rule (IIR) and a backup rule that can be applied by other jurisdictions if the first two rules do not apply, called a UTPR. Jurisdictions are able to introduce the rules at different times, and the Organisation of Economic Co-operation and Development (OECD) estimates that by the end of 2025, approximately 90 percent of potentially in-scope multinational enterprises (MNEs) will be covered by the Global Minimum Tax.¹

Importantly, in the calculation of the 15 percent top-up tax, incentives can be treated differently depending on their structure. Qualified Refundable Tax Credits (QRTCs) are treated in a manner similar to grants, increasing the level of income upon which the 15 percent minimum tax is calculated. QRTCs have a relatively minor impact on the effective tax rate (ETR) used to determine whether the 15 percent threshold is met compared to non-QRTCs, which reduce the amount of tax in the calculation and can have a substantial impact. QRTCs broadly must be refundable within four years.

The Global Minimum Tax rules also recognize Marketable Transferable Tax Credits (MTTCs), which, while not refundable as such, are monetizable, producing a similar result and thus treated in the same manner as QRTCs. Many US Inflation Reduction Act (IRA) credits fall within the concept of MTTCs.

While there are other beneficial rules—such as Qualified Flow-through Benefits—if an incentive falls outside the scope of a QRTC or an MTTC and it is a concession that effectively reduces tax on corporate income under the top-up tax calculations, then the incentive can be “undone” by the Global Minimum Tax rules.

This is the case with many incentives throughout the globe, and jurisdictions are responding in different ways to this new environment. For example, Singapore has introduced a new Refundable Investment Credit where up to 50 percent of qualifying expenditure including certain capital expenditure (CapEx), payroll, and IP development can be claimed as a tax credit or as a grant. In Switzerland, the issue has been dealt with mostly at the canton level with multiple approaches. Vietnam has indicated that it will change its incentives program through the introduction of new grants. Ireland has increased its level of R&D credit as a result of the Global Minimum Tax while Canada is consulting on a patent box and R&D regime, and the UAE is considering mechanisms to help preserve its Free Trade Zone rules. These are just a few jurisdictions that are contemplating changes to their incentives regime as a result of the Global Minimum Tax.

MNEs need to be aware of these developments, and action required may include identifying qualifying expenditures under the new incentive. This may not be easy at times as many jurisdictions offer incentives on a decentralized basis.

Our central message is that in this new environment, one needs to think through the tricky issues of the interaction between incentives and the Global Minimum Tax.

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¹OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors (G20 Brazil, October 2024) | OECD

Summary of available R&D incentives

This guide covers the following countries and the noted incentives. To access the content related to a particular country, if you are using the online version of this Global Guide, click the name of the country; otherwise, advance to the pages cited below.

Incentive type descriptions

R&D tax credit	Tax credits are amounts that directly reduce the tax liability due from the taxpayer after the liability has been computed. If an R&D tax credit is available, each jurisdictional section will indicate whether it is refundable.
R&D deduction/ super-deduction	Tax deductions effectively reduce the tax base before the tax liability is computed, reducing the taxable amount before assessing the tax.
Accelerated depreciation on R&D assets	Accelerated depreciation expensing provisions may be allowed on R&D assets, such as machinery and equipment.
R&D grants	Grants are offered to fund various R&D activities and are typically targeted to particular industries, company sizes, and activity types.
Patent-related incentives	A patent/IP box regime taxes business income earned from IP at a rate below the statutory CIT rate.
Payroll-related incentives	Payroll-related incentives include income tax withholding incentives and reduced social security contributions.
Other R&D incentives, including loan	Other R&D incentives can include, but are not limited to, the following: financial support, loans, reduced (preferential) tax rates, tax allowances, tax exemptions, tax holidays, and VAT reimbursements.
Qualified Refundable Tax Credit (QRTC)	A refundable tax credit paid as cash or available as cash equivalents within four years from the date when a constituent entity satisfies the conditions for receiving the credit. A common example of this could be an R&D refundable tax credit.
Marketable Transferable Tax Credit (MTTC)	A tax credit that can be used by the holder of the credit to reduce its liability for a covered tax in the jurisdiction that issued the tax credit and that meets the legal transferability standard and the marketability standard in the hands of holder.

Summary of global R&D incentives

Jurisdiction	R&D tax credit	R&D deduction/super-deduction	Accelerated depreciation on R&D assets	R&D grants	Patent-related incentives	Payroll-related incentives	Other R&D Incentives, including Loan	QRTC/MTTC
Argentina	■		■	■		■	■	
Australia	■		■				■	
Austria	■			■			■	
Belgium	■	■	■	■	■	■	■	■
Brazil	■	■	■		■	■	■	
Canada	■			■	■		■	
Chile	■	■	■	■				
China		■	■	■			■	
Colombia	■	■		■			■	
Croatia		■		■			■	
Czech Republic		■		■			■	
Denmark	■	■	■	■		■	■	
Finland		■	■	■		■		
France	■			■	■	■	■	■
Germany	■	■		■	■	■	■	
Greece		■	■	■	■			
Hong Kong (SAR), China		■		■	■			
Hungary	■	■		■	■	■	■	
Iceland	■			■				
India		■		■	■	■	■	
Ireland	■		■	■	■	■	■	■
Israel		■		■	■	■	■	
Italy	■			■	■	■	■	■
Japan	■			■				
Lithuania	■	■	■	■	■		■	
Luxembourg	■		■	■	■	■	■	
Malaysia		■		■	■		■	
Netherlands	■	■	■	■	■	■	■	
New Zealand	■			■		■		
Norway	■			■			■	
Papua New Guinea		■						
Peru		■						
Philippines		■						
Poland		■		■	■	■	■	

Jurisdiction	R&D tax credit	R&D deduction/super-deduction	Accelerated depreciation on R&D assets	R&D grants	Patent-related incentives	Payroll-related incentives	Other R&D Incentives, including Loan	QRTC/MTTC
Portugal	■	■		■	■		■	
Romania		■	■			■		
Serbia	■	■			■	■		
Singapore	■	■	■	■	■		■	■
Slovakia		■		■	■		■	
South Africa		■	■	■				
South Korea	■			■	■			
Spain	■		■	■	■	■	■	
Sri Lanka		■						
Sweden				■		■	■	
Switzerland		■	■	■	■			
Taiwan	■	■						
Thailand		■	■				■	
Türkiye		■	■	■	■	■	■	
United Kingdom	■		■	■	■			■
United States	■	■		■				
Vietnam	■						■	

Argentina

Introduction

While it may not have programs as vast or specific as other countries, Argentina has shown interest in promoting R&D activities through the creation of some incentive schemes, with one of the most notable being the Knowledge-based Economy Promotion Regime. This regime encompasses economic activities that apply the use of knowledge and the digitalization of information in their processes.

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Overview of R&D incentives

Knowledge-based economy promotion regime

The law establishing a knowledge-based economy promotion regime has been in force since January 1, 2020. Law 27506 (amended by Law 27570) creates a special regime that will be effective until December 31, 2029.

A 60 percent reduction in the income tax liability for micro and small enterprises, a 40 percent reduction for medium-sized enterprises and a 20 percent reduction for big enterprises, applicable on the income originated in the promoted activities (which, considering the maximum rate of 35 percent) would result in effective income tax rates of 14 percent, 21 percent, and 28 percent, respectively.

Definition of R&D

The regime is applicable to companies engaged in the following activities: software development and related activities, audiovisual productions, biotechnology, geological services, electronic and communication services, professional services qualifying as exports, nanotechnology, aerospace industry, artificial intelligence and robotics, R&D activities, and medical developments, among others.

R&D tax relief

Benefits include:

- Benefits stability while the regime is in force
- Income tax rate reduction, which will be applicable to income derived from the promoted activity only (20 percent reduction for large companies)
- A non-transferable tax credit of up to 70 percent of the employer's contributions effectively paid, derived from the registered employees assigned to the promoted activities. This tax credit can be used over a 24-month term to pay primarily VAT. The benefit calculation will be limited to up to 3,745 employees. The tax credit will amount to 80 percent of the employer's contributions effectively paid when hiring women; transvestite, transsexual, and transgender individuals; professionals with postgraduate studies in engineering, exact and natural sciences; people with disabilities; people residing in unfavorable areas or with less relative development; and people who before being hired were beneficiaries of the so-called social plans.
- Exemption from VAT withholdings and collections (only for exporters).



Beneficiaries may consider as an expense deductible for income tax purposes the amount resulting from any other similar taxes paid or withheld abroad as a result of the income obtained from promoted activities.

Eligibility requirements

To be eligible for the benefits under this regime, companies shall meet the following requirements:

- Seventy percent of their business shall consist of promoted activities
- Inexistence of tax, labor, union, or social security debts
- Registration with a special registry
- Compliance with, at least, two of the following requirements: a) R&D in promoted activities (3 percent of sales, for large companies) or personnel training (5 percent of total salaries of individuals engaged in promoted activities, for large companies), b) exports related to promotional activities (13 percent of total invoicing for large companies) or c) meeting certain quality standards.

Registration/Claim process

Beneficiaries that enroll at the registry must revalidate the registration requirements every two years. In addition, companies shall increase the percentage required by additional requirements at every revalidation process.

Notwithstanding the foregoing, it must be annually proved that the beneficiary maintained and/or increased their payroll with respect to the number of employees hired at the time of applying for the registration. For such purposes, only dismissal without cause will be considered as actually reducing the payroll.

Finally, the following payments shall be made to be registered with the National Registry of Beneficiaries of the Knowledge Economy Promotion Regime:

- FONPEC contribution: 3.50 percent
- Audit rate: 2 percent.

In both cases, the amount to be paid is calculated based on the tax benefits obtained, which arise from the law in force, even if they were not used or were subject to subsequent adjustments.

Other grants and incentives

This regime sets forth several benefits from a federal taxation perspective; however, many provinces/ jurisdictions also issued their own Knowledge-based Economy Promotion regimes.

Likewise, other similar regimes were created—at a provincial level—to promote the economic development of a geographic areas, granting tax benefits to those who develop certain technological activities therein.

Modern Biotechnology (Law 26270)

The regime grants tax credits, early refund of VAT, and other benefits such as accelerated depreciation of certain assets for biotechnology and nanotechnology approved projects.

Definition of R&D

The law defines “modern biotechnology” as the technology application based on rational knowledge and scientific principles derived from biology, biochemistry, microbiology, bioinformatics, molecular biology, and genetic engineering, which uses live organisms or part of them for the production of goods and services or for the substantial improvement of production processes or products.

Nanotechnology is understood as any technological application of the set of techniques and sciences in which materials, substances, and devices of nanometric dimensions are studied, manipulated, and obtained—in a controlled manner—which present special properties exclusively granted by their size smaller than 100 nanometers (100 nm) in one or more dimensions.

R&D tax relief

Tax benefits available under this regime are as follows:

- Accelerated depreciation of fixed assets, equipment, and parts thereof for income tax purposes
- Early refund of VAT on purchases of such assets. This credit will be used toward the payment of other national taxes
- A credit certificate for 50 percent of certain R&D expenses paid to qualified institutions.

Eligibility requirements

The preferential regime is available to resident individuals and legal entities incorporated in Argentina submitting an R&D project based on the application of modern biotechnology or nanotechnology and also to individuals and legal entities filing or executing application projects of modern biotechnology or nanotechnology for the production of goods and/or

services. Eligible individuals/entities shall develop their activities in the country and be in compliance with their tax obligations.

Registration/Claim process

Resident individuals and legal entities incorporated in Argentina submitting an R&D project based on the application of modern biotechnology or nanotechnology should file an application with a registry created for this purpose. An evaluation of the project will be made in order to grant the approval.

Large Investments Incentive Regime

The Large Investments Incentive Regime (RIGI), established by Law 27.742, was created to promote large national and foreign investments in the Republic of Argentina. Those who meet the requirements established by the applicable regulations may join the regime and obtain significant tax, customs, and exchange benefits. The RIGI generates conditions of predictability, stability, and legal certainty for the investments, guaranteeing compliance with the rule of law through special protection in the event of deviations and/or noncompliance by the federal public administration.

Definition of R&D

The large investments that are promoted are those in the following sectors: forestry, tourism, infrastructure, mining, technology, steel, energy and oil, and gas.

Investments that must be made in computable assets are those investments destined to the acquisition, production, construction, and/or development of assets that will be affected to the activities of the sectors listed above, excluding financial and/or portfolio assets and inventories.

R&D tax relief

It is to note that insofar as there is a transfer of revenue to foreign tax authorities due to the application of the Pillar two rules, the benefits will not be applicable.

With regard to Income Tax, the Regime offers benefits such as a flat tax rate of 25 percent (in contrast to the general regime, which has tax rates that range from 25 percent to 35 percent for companies), the reduction of said tax on dividends (3.5 percent WHT on dividends distributed after seven years), accelerated depreciation, and significant benefits related to losses (no temporary limits on their calculation, the possibility to transfer them, and adjustment for inflation).

Additionally, it is established that the VAT can be paid with tax credit bonds and that the tax on debits and credits is usable for the payment of the income tax.

From a Customs point of view, imports under this Regime will not pay import duties or statistics fees in relation to new capital goods, spare parts, parts, components, and consumable goods. On the other hand, after three years, exportations made by the beneficiaries of the Regime will not pay export duties.

In foreign exchange control matters, it should be noted that those who are beneficiaries of the Regime will enjoy a progressive benefit in relation to the obligation to enter and settle foreign currency through the official exchange market for the exports of goods.

Finally, it is important to highlight that the Regime provides mechanisms to ensure the legal certainty and stability of the benefits granted under the RIGI.

Eligibility requirements

A single purpose vehicle (VPU) should be the owner of the investment project.

To qualify as an investment covered by this regime, the minimum amount may not be less than USD200 million and not more than USD900 million.

Investments must be made in computable assets as of the entry into force of the RIGI with the following characteristics:

- Forty percent of the investment must be made during the first and the second years following project's approval
- Exceptionally (if requested at the time of filing application), payments for services that are essential for the project and without which the project could not be executed, up to a limit of 20 percent of the investment amount, may be computed as part of the investment
- The project must qualify as a long-term investment during the first three years from the first capital disbursement (this will be verified by the calculation of a ratio that compares the present value of the expected net cash flow [excluding investments] with the present value of capital investments)
- At least 20 percent of the total investment amount must be acquired from local suppliers, both in the construction and operation stages. This condition will be applicable to the extent that the supply is available and under market conditions in terms of price and quality.

Registration process

The process involves the submission of an application for inclusion in the RIGI. Said application should contain details of the project, such as investment schedule, description of financing, production and export estimates, description of permits and authorizations obtained, etc.

A sworn statement supported by a technical study, stating that the VPU will not distort the local market and a plan for the development of local suppliers must be submitted.

If the project is approved, the VPU will be considered to have been included in the RIGI from the date on which the application was duly submitted.

Tax Credit on Research and Development Projects (Law 23877)

Argentinian companies may obtain a "tax credit certificate" of up to the lower of 10 percent or ARS5 million of certain eligible expenditures in research, development, or technological innovation. Such certificates will be creditable against federal taxes. The executive branch will assign and fix the annual amount of tax credit that may be granted under this regime.

Definition of R&D

This law aims to enhance productive and commercial activity through the promotion and encouragement of R&D, technology transfer, technical assistance, and all innovative activities that contribute to achieving greater well-being.

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
- 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:
 - a. Optimization of a process
 - b. Improved product quality, quality control testing, design advice, and marketing
 - c. Plant commissioning or performance testing or training of staff.

R&D tax relief

- R&D expense deductions
 - Law 23,877 has no tax benefit related to the deduction of R&D expenses.
- R&D tax credit
 - Companies may automatically obtain a tax credit certificate of up to 10 percent or ARS5 million, whichever is lower, of eligible expenses incurred in research, development, and technological innovation for the payment of national taxes
 - The benefit may be materialized within a period not exceeding two years from the date of the expense and may not be compatible with other promotional regimes.

Eligibility requirements

Beneficiaries are natural persons and legal entities, whether public or private, duly constituted and authorized in accordance with national laws and engaged in productive, scientific, technological, or financial activities, with legal domicile in Argentine territory.

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

Registration/Claim process

A specific requesting procedure should be followed before the local tax authority. The executive branch will assign and fix the annual amounts of fiscal credits that may be granted under this regime.

Tax credit regime for training (Law 22317)

A tax credit program aimed at incentivizing the training of personnel in Micro, Small, and Medium Enterprises (MSMEs) in order to promote their growth and development. The tax credit may not exceed 0.8 percent of the annual payroll or 30 percent of the salaries related to the last 12 months, depending on the specific case.

Definition of R&D

This is not strictly an R&D program but could be used by companies taking part in R&D activities.

- *Modality 1:* A company, which can be either large or an MSME, presents a project for the training of one or more MSMEs benefiting from training, as long as they are suppliers, clients, or part of its value chain. Companies that undertake the investment, installation, or organization of centers for comprehensive training for the small and midsize enterprise (SME) sector, or provide financial assistance to these centers, can also access it
- *Modality 2:* Training projects directly presented by one or more SMEs for the training of their own staff.

R&D tax relief

The benefit consists of access to a tax credit bonus.

In the case of large companies, the amount of the tax credit they can access shall in no case exceed 8 per thousand of the total sum of salaries paid to staff.

For SMEs, the tax credit shall in no case exceed 30 percent of the total sum of salaries and general remunerations for services rendered, corresponding to the last 12 months, paid to staff employed in business establishments, regardless of the type of work they perform.

The tax credit is issued in the form of certificates, and it may be used to pay any federal tax (e.g., income tax and VAT). Expenses or gifts originating the tax credit are not deductible for income tax purposes. The tax credit may be granted only once a year.

Tax credit certificates may be transferred by endorsement and may only be used by their holders or, if applicable, by the endorsees for the payment of their tax obligations arising from any of federal taxes.

Eligibility requirements

The tax credit is granted, upon request, by the applicable government agency. The annual quota for such certificates is established annually in the general budget of expenses.

Registration/Claim process

All companies participating in the tax credit program, even if done jointly, must be previously registered in a registry and should file the specific project for evaluation and analysis.

Australia

Introduction

The Australian R&D Tax Incentive encourages companies to engage in R&D benefiting Australia by providing a tax offset for eligible R&D activities. In October 2020, the government announced reforms that resulted in an increase in the benefit for most claimants.

While the R&D Tax Incentive is the primary R&D incentive for industry, there are other state and federal programs that support industry-based innovation.

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Overview of R&D incentives

- Most companies (less than AUD20 million group turnover) can access a refundable R&D tax offset at 43.5 percent of eligible R&D expenses, which can be cashed out where sufficient tax losses exist
- Larger companies can access a non-refundable R&D tax offset that ranges from a net benefit of 8.5 percent to 16.5 percent (depending on the company's "R&D intensity")
- Range of federal and state government grants and concessional loans and tax rates for eligible businesses.



Definition of R&D

Core R&D activities

Experimental activities, whose outcome can only be determined by applying a systematic progression of work, that proceed from hypothesis to experiment, observation, and evaluation, leading to logical conclusions, and are conducted for the purpose of generating new knowledge.

Supporting R&D activities

These are activities that either:

- Directly related to one or more core R&D activities
- Meet a dominant purpose test if the activity is an excluded core R&D activity or directly related to producing goods or services.

At least one core activity is required before supporting activities can be claimed. This core activity may take place outside of the financial year in which the supporting activity is being claimed.

R&D tax relief

Refundable tax offset

- Who is it for?
 - Australian incorporated companies or foreign-owned entities that carry on business through a permanent Australian establishment, with aggregated (grouped) annual turnover under AUD20 million and which are not majority owned by any combination of exempt entities
- Target audience:
 - Small companies in all sectors

- Benefit:

- A tax offset of 18.5 percent rate above the company's tax rate, which, for a base rate entity, is 25 percent. This typically results in a 43.5 percent rate
- Where a company qualifies for the refundable R&D tax offset but doesn't qualify as a base rate entity, the tax offset applies the same way but can result in a higher overall rate: 48.5 percent
- The net benefit is the amount above the company's tax rate, although companies with sufficient tax losses can cash out the full tax offset amount.

Entity type	Corporate tax rate	R&D tax offset	Effective R&D tax offset rate
Base rate entity	25%	18.5 percentage points above corporate tax rate	43.5%
Non base rate entity	30%	18.5 percentage points above corporate tax rate	48.5%

Nonrefundable tax offset

- Who is it for?
 - Australian incorporated companies or foreign-owned entities that carry on business through a permanent Australian establishment, with individual or aggregated (grouped) annual turnover of AUD20 million or more. It also applies to smaller companies that are majority held by exempt entities at any time during the income year.
- Target audience:
 - Larger companies in all sectors

- Benefit:
 - The non-refundable R&D tax offset provides a premium based on the level of R&D intensity (R&D spend as a proportion of total expenditure for the year)
 - Incremental net benefit from 8.5 percent to 16.5 percent depending on the company's annual R&D intensity. This typically provides a company with a base rate of 38.5 percent and a premium rate of 46.5 percent. Smaller companies with majority ownership by exempt entities will have a base rate of 33.5 percent and a premium rate of 41.5 percent.
 - Indefinite carryforward of the offset if it exceeds tax payable (no cash refund), subject to tax loss carryforward rules.

Tier	Intensity range	Intensity premium
Base rate entity	0–2%	8.5 percentage points above corporate tax rate
Non base rate entity	2%+	16.5 percentage points above corporate tax rate

Adjustments

There are a number of provisions which may reduce the R&D benefit, generally where the company receives another benefit on the same expenditure (e.g., government grants, sells the outputs or results from the R&D activities, or sells equipment used for the R&D). These adjustments typically arise in the year the additional benefit is received or receivable.

Eligibility requirements

The R&D Tax Incentive is administered jointly by Industry Innovation and Science Australia (IISA) and the Australian Taxation Office (ATO). Annual registration of R&D activities with IISA is a prerequisite for claiming the R&D Tax Incentive.

In addition to registering, a company must meet the following conditions:

- Incorporated under Australian law or incorporated under foreign law with specific circumstances (see below)
- Annual R&D expenditure of at least AUD20,000
- Be able to evidence (and retain evidence of) how the R&D activities meet the legislative criteria and the nexus between each registered R&D activity and expenditure incurred

- If the R&D activities are for the development of software intended for the dominant purpose of the company's (or a related entity's) internal business administration, they cannot qualify as a core R&D activity and can only qualify as supporting R&D activities if for the dominant purpose of supporting one or more eligible core R&D activities
- If the R&D is Australian owned, then the company must be the major benefactor of the R&D, actively control the R&D, and bear the financial risk of the R&D activities at the time they are undertaken; or
- If the R&D is foreign owned, the foreign entity for which the R&D is being done must be tax resident in a country with which Australia has a double tax agreement and the R&D activities must be undertaken under a written agreement with the foreign entity.

Registration/Claim process

R&D registration

Each year, companies must apply for registration of their R&D activities with IISA within 10 months after the end of the company's income year.

R&D tax incentive schedule

Once a company has registered its R&D activities with IISA, it can claim the R&D tax offset via its annual income tax return.

Two years after an R&D claim is made and as part of Australia's tax transparency measures, the ATO will publish the company's name and its total R&D expenditure. Details of the R&D are not made public.

Eligible expenditure

Most types of expenditure incurred on R&D activities can be claimed and include costs such as labor and consumables used to undertake the R&D. However, specific exclusions apply and integrity provisions to ensure the cost of the R&D is not artificially inflated and that in most cases, the company bears the financial risk in undertaking the R&D.

Further, there are a number of provisions that may reduce the R&D benefit, such as where the company received another benefit in relation to the same R&D (e.g., government grants, sells the outputs or results of the R&D, and sells equipment used for the R&D). These adjustments typically arise in the year the additional benefit is received or receivable.

Advance and overseas findings

Advance Findings allow specific R&D activities to be certified by IISA and which, if granted, guarantee eligibility for the year in which applied for and the following two years.

Overseas Findings allow specific R&D activities conducted partially or completely overseas to be certified by IISA. An Overseas Finding application automatically includes an Advance Finding application for the overseas activities and will only be granted where there is a significant scientific link to one or more Australian core R&D activities and the majority of the project R&D expenditure is in Australia. While only binding for the year in which applied for and the following two years, IISA and the ATO have provided guidance that companies may continue to claim expenditure on overseas R&D activities covered by an Advance Finding beyond three years.

Other grants and incentives

A range of federal and state government grants and concessional loans targeting strategic sectors (e.g., advanced manufacturing, health, defense, agriculture, and enabling technologies) and job creation are also available.

Other forms of support

More recently, the federal government and some state governments have created funds to provide capital for innovative companies by way of equity or debt. Where the funding is via equity, the government fund will typically coinvest with other private sector investors. Where the funding is via debt, the government fund will provide capital on favorable terms. The single largest fund is the federal government AUD15 billion National Reconstruction Fund, which will provide a range of debt and equity funding to business over a seven-year period.

Accelerated depreciation

While not specific to R&D activities, companies with group turnover below AUD5 billion are able to access a range of accelerated depreciation measures.

Austria

Introduction

The Austrian system for R&D tax incentives provides for an R&D premium, which is effectively a cash payment that is credited to the taxpayer's tax account. The premium can be claimed for in-house R&D and for outsourced contract R&D. The R&D premium amounts to 14 percent of qualifying expenses for financial years beginning after January 31, 2017. The Austrian system is quite attractive, as the taxpayer can claim the R&D premium even if a loss is incurred in the respective financial year.

Austria also provides a super deduction for investments in eligible fixed assets. The deduction generally amounts to 10 percent of the investment amount. For ecological (so-called "climate friendly") investments, the deduction is increased to 15 percent of the investment amount. Investment deduction can be claimed for tangible and certain types of intangible assets.

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Overview of R&D incentives

A taxpayer can claim the R&D premium at a rate of 14 percent of qualifying expenses.

Definition of R&D

For the purposes of the R&D premium, the Austrian R&D definition is based on the R&D OECD definition of the Frascati Manual. According to Section 108c of the Austrian Income Tax Act 1988 and a decree of the Austrian Federal Ministry of Finance (BGBl II 2002/506), R&D is any inventive activity, which is conducted in a systematic manner by using scientific methods.

The purpose of R&D must be the increase of knowledge, the achievement of scientific technological advancement, or the development of new applications of existing knowledge. This includes fundamental, applied, and experimental research activities. The premium can also be claimed for experimental development and failed research.

In terms of in-house R&D, the research activities must be carried out in Austria. If R&D activities are outsourced, the research activities must be carried out in the European Union (EU) or in the European Economic Area (EEA).

R&D tax relief

An R&D allowance was abolished in 2010. For financial years 2011 onwards, only the R&D premium for qualifying activities can be claimed. The R&D premium is a cash payment that is payable irrespective of the profit situation of the company. Furthermore, the R&D premium does not constitute taxable income in Austria.

Eligibility requirements

In order to be entitled to claim the R&D premium, the taxpayer must meet the requirements set out in Section 108c of the Austrian Income Tax Act 1988. Individual taxpayers and companies are entitled to claim the R&D premium unless they are exempt from CIT.

Eligible taxpayers

Both individuals and legal entities can claim the investment deduction for eligible investments. This is true irrespective of the way the taxpayer computes their taxable income (inflow and outflow computation versus accounting). However, taxpayers who compute their taxable income on a lump-sum basis cannot claim the investment deduction.



Eligible investments

The investment has to have a useful life of at least four years and be used within an Austrian business or an Austrian permanent establishment (PE) and be used for generation of business income (investments in financial securities are not covered by the investment deduction).

Both tangible and intangible investments are eligible. However, intangible investments are only eligible if they serve the areas of digitalization, ecology, and life sciences/healthcare. Intangible investments are not eligible, if they meant to be licensed out. Intangibles that are acquired from members of the same group of companies or controlling persons are not eligible (exclusion of intangibles acquired from affiliated persons).

Also, assets produced by the business itself are generally eligible for investment deduction, provided that other eligibility criteria are fulfilled.

Excluded investments

The following investments are explicitly excluded from the investment deduction:

- Passenger cars (excluding zero-emission vehicles)
- Buildings
- Depreciable assets of less than EUR1.000,00, if the option of instant depreciation is used
- Pre-used assets
- Fixed assets that are used for extraction and transport of fossil fuels and fixed assets that directly use fossil fuels.

Deduction rate

The regular deduction rate amounts to 10 percent of the investment amount (or of the production costs in case of self-produced assets).

A rate of 15 percent is applicable to investments or self-produced assets that are ecological (“climate-friendly”).

Maximum amount

Each business can apply for a deduction of maximum EUR150.000,00 or EUR100.000,00 per year (so the assessment basis is limited to EUR1 million per year).

An individual with multiple businesses can apply for a deduction for each business separately.

Process of claiming

The investment deduction can only be claimed in the year of acquisition or production of the asset.

If the production or acquisition covers more than one financial year, then partial investment amount (or partial production costs) can be claimed.

The investment deduction is claimed in the tax return for the respective year.

Registration/Claim process

- The eligibility requirements for in-house R&D activities must be confirmed by the Austrian Research Promotion Agency (Forschungsförderungsgesellschaft, FFG)
- In case of contract R&D, the principal must inform the agent (until the end of the financial year) if, and to what extent, they are planning to claim the R&D premium for contract R&D. This information exchange must be documented. In such case, the agent cannot claim a premium for in-house R&D for the expense, which forms the principal’s basis for the R&D premium for contract R&D.
- For premiums that relate to years before 2022
 - The R&D premium can be claimed after the end of the financial year at the earliest. The claim must be submitted before the taxpayer’s income tax assessment enters into legal force.
- For premiums that relate to years 2022 and onwards
 - The deadline for claiming of the R&D premium is four years after the end of the respective financial year and does not depend on when the tax assessment for the respective financial year enters into legal force.

Further relevant information

According to the Decree BGBl II 2012/515 of the Austrian Federal Ministry of Finance, the following expenses constitute eligible costs for the R&D premium (if they are related to R&D activities):

- Actual salaries and wages including incidental wage costs
- Material for continuous R&D expenses
- Capital investments including investments into property
- Finance costs attributable to R&D activities
- Other indirect allocable costs
- For R&D premiums that relate to year 2022 and onward the R&D expenses can be increased by fictitious pay of a researcher who is conducting R&D for their own company/business without receiving any pay. This measure aims to make the R&D premium more attractive for start-up founders.
- Expenses must be reduced by tax-free income.

Section 108c of the Austrian Income Tax Act 1988 distinguishes between in-house R&D activities and outsourced contract R&D.

In case of contract research (outsourcing), the following requirements must be met:

- The R&D order must be placed by an Austrian entity, permanent establishment, or branch
- Only expenses for R&D conducted by companies or organizations based in the EU or EEA are eligible
- The agent cannot be controlled by the principal
- The agent and the principal cannot be in a tax group of companies
- The calculation base for premium for contract R&D is limited to a maximum of EUR1 million per financial year (i.e., the maximum premium for contractual research is EUR140.000 for financial years beginning after December 31, 2017).

The calculation base must be reduced proportionately if the fiscal year covers less than 12 months.

There is no limitation on the calculation base for the in-house R&D premium. The tax premium can also be claimed, if a taxpayer incurs a loss in a financial year. The tax premium is credited directly to the taxpayer’s tax account.

The taxpayer can apply for a ruling in which the tax office would rule that a current R&D project constitutes R&D activity. In such case, the taxpayer does not have to apply for eligibility check by the Austrian Research Promotion Agency for the same project in subsequent years. Providing proof that the project does not significantly deviate from the project that was subject to the ruling is sufficient.

A taxpayer can also apply for a confirmation by the tax office that the calculation base for the premium has been correctly computed. In this way, the taxpayer can prevent a subsequent reduction of the research premium in the course of a tax audit. To issue such confirmation, an auditor must verify the correctness of the calculation.

Other grants and incentives

There are no other tax incentives with respect to R&D activities available in Austria.

Belgium

Introduction

Belgium is a prime location for companies involved in R&D activities and in the exploitation of patents. Belgium offers a full range of tax incentives enabling companies to structure their R&D activities, as well as the valorization of the intellectual property resulting from R&D activities, in a tax efficient way. This comprehensive R&D regime consists of tax deductions on qualifying IP income, deductions on R&D investments and (refundable) tax credits, cash savings on payroll cost of researchers, and full tax exemption of R&D subsidies.

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Overview of R&D incentives

Under the innovation income deduction (IID) regime, a reduced CIT rate of maximum 3.75 percent applies to qualifying innovation income (i.e., 15 percent of income taxable at the nominal CIT rate of 25 percent). Main qualifying IP rights (IPR) are patents, copyright protected software, and breeders' rights.

Costs for research can be deducted immediately as business cost, while for development costs (including salary costs), one has the option to record an intangible fixed asset that can be depreciated over a period of at least three years. Both research and development can qualify for the investment deduction and (refundable) R&D tax credit when depreciated over at least three years for tax purposes. Under this regime, an additional deduction or tax credit is available on top of the normal depreciation cost for R&D-related assets. For R&D investments made in assessment year 2025, the rate of the deduction is a one-off 15.5 percent of the investment value or 23.5 percent of the annual depreciation on the assets. The alternative R&D tax credit (calculated as the investment deduction multiplied by the nominal CIT rate) is cash refundable if not utilized after four years.

Definition of R&D

The definition of R&D is in line with the OECD Frascati Manual and is as follows:

- **Fundamental research:** The experimental or theoretical activities directed toward greater knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications for processes or products in mind
- **Industrial research:** Systematic research aimed at the discovery of new knowledge and skills for the development of new products, processes, or services or to significantly improve existing products, processes, or services. It comprises the creation of components of complex systems necessary for industrial research, notably for the validation of general technologies with the exception of prototypes.



- **Experimental development:** The acquiring, combining, shaping, and using of existing scientific, technical, business, and other knowledge and skills for plans, schemes, or designs for new, altered, or improved products, processes, or services. This also comprises the conceptual formulation and design of new products, processes, or services and capturing information thereof. These activities may also comprise producing drafts, drawings, plans, and other documentation provided that they are not intended for commercial use.

Innovation income deduction

The common Belgian corporate tax regime foresees a so-called "deduction for innovation income" since 2016 (compliant with Action 5 of the OECD BEPS Action Plan).

The headlines of the innovation income deduction (IID) include:

- **Qualifying IP Rights (IPR):** Not only patents and extended patent certificates qualify but also copyrighted software (developed by the taxpayer in the context of an R&D project or program), breeders' rights, orphan drugs, and certain data and market exclusivity rights (based on European directives or other international legislation in the field of medicine and food regulation)
- **Types of qualifying income:** The qualifying income includes royalties and license fees, IPR income embedded in the sales price of goods and services, and process innovation based on the IPR (reflecting what a third party would be willing to pay to have access to the IPR), as well as capital gains (the latter subject to reinvestment in qualifying R&D within five years).
- **Deduction percentage of 85 percent of net qualifying income.**

- **Determination of the net amount of qualifying income:** A specific requirement of the modified nexus approach is that the beneficial tax regime is applied to the net IPR income (i.e., after deduction of R&D costs) and subject to a specific formula to weigh the taxpayer's own contribution to the creation of the IPR.

The following formula has been introduced to determine the income that can benefit from the preferential regime: qualifying R&D costs over total R&D costs multiplied total net income from IP.

For the qualifying costs, the costs of outsourcing to related parties are excluded, contrary to the cost of outsourcing to unrelated parties, which are considered as "qualifying costs."

An uplift of 30 percent of the qualifying expenses is foreseen. However, this increase (30 percent) can never result in a fraction exceeding one.

Other features of the IID

- Unused deduction—due to a lack of taxable base—can be carried forward (indefinitely). Moreover, as from assessment year 2025, taxpayers have the option not to offset (a part or the full amount) of IID (both the IID of the year itself as well as IID carried forward) but to convert it into a non-refundable tax credit for innovation income. This tax credit for innovation income can be carried forward (indefinitely) and can be offset against future CIT. For each taxable period, taxpayers have the choice to apply this tax credit or not. This is particularly relevant in view of the application of the Global Minimum Taxation rules (GloBE) under Pillar Two of the OECD BEPS 2.0 actions.
- The taxpayer can also claim the benefits of the regime while the patent is still pending approval (subject to recapture if the patent application is denied later).
- So-called "historic" R&D costs (i.e., R&D costs stemming from financial years preceding the first year of application of the IID) will have to be deducted as well but can be spread over a maximum of seven years.

Increased investment deduction or tax credit (as from January 1, 2025 – old regime applicable before)

A percentage of the acquisition or investment value of certain assets that have been acquired or established during the taxable period is tax deductible. This deduction comes in addition to the normal—tax deductible—depreciation of these assets, leading to an overall tax deduction that is higher than the assets' value.

Qualifying fixed assets

- For the thematic investment deduction:
 - Investments in efficient energy use and renewable energy
 - Investments in carbon emission-free transportation
 - Environment-friendly investments
 - Digital investments supporting the three previous categories.
- For R&D investments:
 - Patents
 - Fixed assets that promote the R&D of new products and advanced technologies that have no effect on the environment or that aim to minimize the negative effect on the environment.

Applicable rules and rates

- Thematic investment deduction: 30 percent (40 percent for SMEs)
- R&D deduction:
 - The deduction can be applied as a one-off deduction. In that case, the deduction equals 13.5 percent.
 - The deduction can also be spread over the depreciation period of the fixed asset. In that case, the investment deduction will, each year, be equal to 20.5 percent of the depreciation amount.

Carry forward to later assessment years

When the deduction cannot be (fully) set off against the profits of the taxable period, the (proportion of the) investment deduction that has not been used can be carried forward without any time limit and can be set off against the profits of the subsequent taxable periods.

R&D deduction: Option for a refundable tax credit

Companies have the possibility to opt for the application of a tax credit instead of the R&D deduction.

In case of insufficient tax against which the tax credit can be set off, the credit can be carried forward to the following assessment years. The balance of the unused tax credit is cash refundable after four years, which makes it a qualifying tax credit for purposes of the Global Minimum Tax rules.

Companies have the choice to set off the tax credit in full against the CIT due or to transfer it (different from the IID, which may also be partially offset).

Correction related to the (partial) professional withholding tax exemption regime

When wages that benefit from the (partial) wage withholding tax exemption are included in the acquisition value of assets, the exempt amount may not be included in the calculation basis of the investment deduction/tax credit, which eliminates the possibility of double deduction.

Partial exemption from payment of withholding tax on wages paid to researchers

Companies that employ researchers can benefit from a partial exemption from payment of withholding tax on their wages. If all conditions are fulfilled, only 20 percent of the withholding tax due on the wage of these researchers has to be transferred to the tax authorities, whereby the remaining 80 percent can be kept by the employer. The measure thus has no impact on the individual income tax situation of the researchers and generates a cash subsidy for the employer.

Qualifying companies

- Companies that pay wages to researchers engaged in research projects conducted pursuant to partnership agreements with universities/colleges in the European Economic Area or with a recognized scientific institution.
- ‘Young Innovative Companies’ that pay wages to employed R&D personnel.
- Companies that pay wages to researchers who are engaged in R&D projects or programs and who have a doctorate or master’s degree in applied sciences, exact sciences, medicine, veterinary medicine, and pharmaceutical sciences; a degree in civil engineering; or a master’s or equivalent degree in a scientific field or a combination of scientific fields. The partial exemption also applies for employees who hold a professional bachelor’s or equivalent degree in the fields of biotechnology, healthcare, industrial sciences and technology, nautical sciences, commercial sciences, and business administration (limited to informatics and innovation), although the total amount of the exemption for bachelor’s degrees is limited to 25 percent (50 percent for SMEs) of the total amount of the applied exemption for employees with a master’s degree.

Notification of R&D projects or programs

It is required to register R&D projects or programs up front (i.e., prior to the start of the project or program) with the Belgian Federal Science Policy Department.

Other R&D-related benefits

R&D grants

Through its regional institutions, Belgium offers a wide variety of direct grants in relation to R&D. Examples are grants for research projects, development projects, feasibility studies, (cooperation with) PhD researchers, international innovation/R&D cooperation, innovative starters, etc.

Tax exemption of regional grants

Premiums and capital or interest subsidies on tangible and intangible assets granted by Belgian regional institutions to support R&D are exempt from corporate tax.

Ruling practice

Belgium offers an efficient, transparent, and flexible advance ruling practice that provides investors the necessary legal certainty on how the tax law will be applied to their specific situation or to specific transactions.

Brazil

Introduction

The Brazilian R&D main tax incentives can be divided into four categories: General Rule (Law of Goodness), Automotive Sector Benefit (MOVER Program), Informatic Sector Benefit (The New IT Law), and Automotive Regime – North, Northeast, and Midwest Brazilian Incentive. In some situations, they can be combined, as can be seen in automotive industries using the Law of Goodness and the MOVER Program together. Overall, the Brazilian system is becoming more attractive, as part of the plan to increase investments in R&D and stimulate the production of new technologies and innovations, according to global technological trends.

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Overview of R&D incentives

“Lei do Bem” – Main R&D tax incentive

An additional deduction of 60 percent (may reach 80 percent) of expenditures in technological innovation from the income tax calculation (income tax and social contribution on net profit)

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.”

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 preexisting 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.

R&D tax relief

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 expenditures for researchers who 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 research, development, and innovation (RD&I) activities.
- Accelerated amortization for intangibles assets used in R&D.

Eligibility requirements

The instruction IN-RFB 1187/11 regulates the use of benefits in technological innovation. Some primary requirements are the following:

- 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/Claim process

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.

Other grants and incentives

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).

Regulation

Law 11,196/2005 (Articles 17–26), Decree 5,796/2006, and instruction IN-RFB 1,187/2011

“Green Mobility and Innovation Program” – MOVER – Automotive Sector

Tax incentive for automotive chain companies that invest in R&D in Brazil. The main benefit consists of a financial credit to pay federal taxes, corresponding to 50–320 percent of R&D expenditures, limited to a percentage of net revenue.

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.”

Eligible activities

Research:

- Basic research directed (new phenomena study)
- Applied research (empirical study of preexisting knowledge)
- Experimental development (technical feasibility of the research)
- Structuring projects (professional training in automotive engineering, infra in R&D laboratories, and acquisition of equipment for R&D)

Development:

- Technological development with technological uncertainties
- Supplier training
- Basic manufacturing
- Basic industrial technology
- Technical support service
- Tooling development, molds, and models of molds

R&D tax relief

R&D expenditures incentives:

- Financial credit of 50 percent on R&D expenditures.
- Additional financial credit of up to 10 percent for companies that can prove that their products are produced locally.
- Additional financial credit of up to 10 percent for companies that diversify their markets (expand exports to different countries).
- Additional credit of up to 250 percent on R&D related to new propulsion and auxiliary systems technologies.

New production projects incentives:

- Financial credit of 12.5–25 percent on productive assets for new productions in the country and/or relocation of plants
- Financial credit on import tax on machinery and equipment for relocation cases
- Financial credit on income tax and social contribution from export profits related to revenue from new projects relocated to Brazil

Eligibility requirements

- Companies that produce in Brazil automotive products covered by ACE 14; systems and strategic solutions for mobility and logistics; and their inputs, raw materials, and components.
- Have an approved development and technological production project in Brazil.
- Develop, in the country, research, development, innovation, or engineering services for the automotive chain, with integration into global value chains.

Registration/Claim process

Companies that use the incentives must:

- Request and be approved by the Ministry of Development (MDIC)
- Perform expenses, in percentage of net revenue, with R&D activities
- Conduct periodic reports, through accessory obligations to be published
- Produce consistent documentation for audit processes.

Other grants and incentives

Non-produced auto parts regime: exemption from import tax for products (without equivalent national production capacity), when destined for the industrialization of automotive products; destination of the import tax (II) value of imported parts in this regime for R&D projects.

Regulation

Law 14,902/2024, Ordinance 43/2024.

“Informatic and Technology Law” – Brazil new regulation since 2020

Financial credit of 2.73 times (up to 3.41) of the amounts invested in R&D by companies in the areas of information and communication technology (ICT), which can be used to pay any federal taxes.

Definition of R&D

For the purposes of the law, it is considered as research, development, and innovation activities, basic research projects, applied research, or experimental development of a technological nature that leads to the resolution of a technical-scientific problem in the area of ICT.

The project must be executed in a systematic way, structured properly contextualized with its scope, including investigative, validation, or experimental activities that contribute to prove the achievement of its objectives and the resolution of the technical-scientific problem. Presenting as a result an element of technological novelty (knowledge, product, process, characteristic, or property of the result, etc.), that is, an addition of knowledge or practices to the existing technological collection (new knowledge, materials, products, processes, etc. or at least, significant improvements in these materials, products, processes, etc.).

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 preexisting knowledge to prove or demonstrate the technical feasibility and functionality of new products, processes, systems, and services or an improvement in existing technology

- *Formation and training*: education or professional training through courses at medium and higher levels and postgraduate courses in the information technology area, such as information technology, computing, electrical, electronic and mechatronics engineering, telecommunications, and related.

R&D tax relief

Eligible projects and expenditures are eligible for:

- A financial credit of 2.73 times the amount invested in research, development, and innovation projects (RD&I), in the area of ICT that can be used to pay any federal tax (IR, CSSL, IPI, etc.). This financial credit can reach 3.41 times the amount invested in RD&I if the company proves national development. The amount of the financial credit is limited to a percentage of sales in incentive products according to the region of production, varying between 10.92 percent and 13.65 percent.

Eligibility requirements

To qualify for financial credit, beneficiary companies must meet the following:

- Comply with the basic productive process (PPB) for the incentive product.
- Invest annually, in the country, in RD&I activities in the ICT sector, the minimum percentage of 4 percent on the calculation basis formed by gross sales in the domestic market, resulting from the sale of the incentive products.
- All expenses related to the projects must be controlled through specified accounts.
- Goods and services must be purchased in Brazil to be eligible, with some exceptions (i.e., import of fixed assets).
- Clearance of federal taxes is required (certified each semester).

Registration/Claim process

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)
- Request quarterly financial credit through the MCTI system proving the gross sales of the incentive product.

Regulation

Law 13.969/2019 and Decree 10.356/2020

“Automotive Regime” – North, Northeast, and Midwest Brazilian Incentive

Presumed IPI credit for companies that invest more than BRL2.5 billion in R&D and infrastructure investments by 2025 in the North, Northeast, or Midwest Brazilian regions

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.”

Eligible activities

For the purposes of the law, technological innovation, research, and development activities are considered:

- *Basic research*: work performed with the objective of acquiring knowledge regarding the understanding of new phenomena, with a view to the development of innovative products, processes, or systems
- *Applied research*: work performed with the objective of acquiring new knowledge, for the development or improvement of products, processes, and systems
- *Experimental development*: systematic works based on preexisting knowledge, aimed at proving or demonstrating the technical or functional viability of new products, processes, systems, and services or, still, evident improvement of those already produced or established
- *The development of projects*: aimed at clarifying uncertainties in the use of technologies or in the combination of different technologies in new applications, consisting of systematic works based on knowledge obtained through research or practical experience; aimed at the development or manufacture of new ones, products, processes, means of production, and services, or the improvement of those that already exist, which are characterized by technical studies; and aimed at clarifying uncertainties in the use of technologies or in the combination of different technologies in new applications or that better target existing technologies, since the design of the product until preproduction, in the case of the product, and from the conceptual phase to the acceleration and cadence of production, in the case of the processes and means of production of the manufacture of products.

R&D tax relief

Eligible projects qualify for presumed credit of the tax on industrialized products – IPI, as reimbursement of the Contribution to the Social Integration and Formation Programs of the Civil Servant’s Assets – Contribution to PIS/Pasep and the Contribution to the Financing of Social Security – Cofins, in relation to sales between January 1, 2021, and December 31, 2025.

The presumed credit will be equivalent to the result of the application of the rates on the value of sales in the domestic market, in each month, of the products included in the projects referred to in the caput, multiplied by:

- I – One whole twenty-five hundredths, until the 12th month of enjoying the benefit
- II – One whole, from the 13th to the 48th month of enjoying the benefit
- III – Seventy-five hundredths, from the 49th to the 60th month of enjoying the benefit.

Eligibility requirements

To qualify for IPI credit, beneficiary companies must:

- Contemplate productive investments in R&D in an amount exceeding BRL2.5 billion
- Make investments in research, development, and technological innovation projects, including in the area of automotive engineering, corresponding to, at least, 10 percent of the value of the presumed credit calculated
- Clearance of federal taxes
- Make the investments in the North, Northeast, or Midwest regions, except for the Manaus Free Trade Zone.

Registration/Claim process

Companies must be habilitated by the Executive Branch until May 31, 1997.

Other grants and incentives

- Reductions in import taxes (rules may be applied.)
- Reduction in the tax on industrialized products (rules may be applied.)
- Exemption from additional freight to renew the Merchant Navy – AFRMM
- Exemption from IOF (taxes over financial operations) on foreign exchange transactions carried out for payment of imported goods

Regulation

Law 9.440/1997 and Decree 10.457/2020

Canada

Introduction

The Scientific Research and Experimental Development (SR&ED) program is the largest single source of funding for companies undertaking research efforts in Canada. The program provides over \$3 billion of credits to over 20,000 Canadian companies on an annual basis through credits at a basic rate of 15 percent for larger and foreign controlled entities and at a rate of 35 percent for Canadian Controlled Private Corporations (CCPCs). In addition to earning credits at a higher rate, the credits earned by CCPCs may also be refundable on up to CAD3 million of qualified expenditures. In addition to the federal incentives, most provinces also offer SR&ED tax credits.

While the SR&ED program is by far the largest and most complex of the government's R&D support programs, both the federal and provincial governments also provide a wide variety of direct incentives in the form of grants, contributions, and loans. These government incentives seek to support businesses in pursuing desirable industry outcomes via capital investments, workforce advancement, market expansion, adoption of environmental sustainability, and innovation.

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Overview of R&D incentives

The Canadian federal government announced in the 2024 budget the continuation of a consultation process that is looking to improve and modernize the SR&ED program. In addition to the consultation process, it has also committed an additional CAD600 million over a four-year period to enhance the program and, through a second consultation, is exploring the potential of adding a patent box regime.

Canada has committed to the adoption of BEPS Pillar Two legislation, and it is anticipated that it will apply to fiscal years of taxpayers that begin on or after December 31, 2023. Within the 2024 budget, Canada's government has said that the aforementioned consultations will consider refundability of SR&ED tax credits for Canadian businesses given the treatment of non-refundable credits as income under BEPS Pillar Two.

A general federal Investment Tax Credit of 15 percent applies to all the qualifying SR&ED expenditures for larger companies. CCPCs are eligible for a federal 35 percent refundable ITC, if they meet certain maximum capital requirements (currently less than CAD50 million of taxable capital deployed in Canada).

Provinces also provide SR&ED ITC, which are in addition to the federal ITCs noted above. These provincial ITCs may be either refundable or non-refundable and range from 3.5 percent to 30.0 percent of eligible SR&ED expenditures. A few provinces do not provide SR&ED ITC tax benefits.

Definition of R&D

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.

This can then be further broken down to be occurring as basic research, applied research, or experimental development.

Most claims in Canada are experimental development in nature where the burden is placed onto the taxpayer to demonstrate that technological uncertainty was present before any eligible SR&ED can be performed. Technological uncertainty is a point in time where the taxpayer's technological know-how and publicly available knowledge are lacking such that the systematic investigation is required to develop that knowledge.

It should be noted that the consultations scheduled for 2024 have indicated a possibility of revisiting these policies.



R&D tax relief

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 by SR&ED; subcontracted SR&ED or direct SR&ED support; payments to universities, colleges, or research consortia; and overheads. 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 55 percent of the directly engaged labor (proxy method).

All qualified expenditures must be for SR&ED work performed in Canada with an allowance for 10 percent of those qualified expenditures to be worked that was performed outside of Canada by Canadian resident employees who are directly engaged or supporting the project.

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

R&D tax credit

The ITC rate applied against eligible SR&ED expenditures varies by the type of entity (CCPC versus non-CCPC). For CCPCs, there is a maximum capital limit as the CCPC enhanced rate is intended to be applicable to small and midsize companies. The following is an overview of the ITC rates available:

- A general 15 percent federal tax credit for all qualifying SR&ED expenditures. The rate increases to a 35 percent refundable credit for certain CCPCs on the first CAD3 million in expenditures incurred in the year (Expenditure Limit), provided the company had less than CAD10 million (approximately USD7.3 million) in taxable capital in the prior year. The Expenditure Limit is reduced by prior year associated taxable capital that exceeds CAD10

million and is eliminated at CAD50 million, determined on a straight-line basis.

- Provincial SR&ED incentives vary from 3.5 percent to 30 percent. Some provincial SR&ED ITCs are also fully refundable. Federal refundable ITCs are only available to 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 total expenditure or associated ITCs that can be claimed in a particular year. In addition, there is no restriction on the location of IP resulting from the SR&ED. However, the Canadian company's R&D must be related to its business in order to be eligible for the SR&ED program.

Eligibility requirements

In order to qualify for the R&D tax incentive, a project needs to meet the following criteria:

- *Scientific or technological advancement*: The work must generate information that advances the understanding of scientific relations or technologies
- *Scientific or technological obstacle*: uncertainty that the goals can be achieved
- *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.

Further, the activities that qualify for R&D tax incentive include:

- *Basic research*: work done to advance scientific knowledge without a special practical application in view.
- *Applied research*: work done to advance scientific knowledge with a specific practical application in view.
- *Experimental development*: work done to achieve technological advancement to create new materials, devices, products, or processes or improve existing ones.
- *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.

The federal government has provided further guidance on SR&ED eligibility in the form of two requirements that a taxpayer must be able to meet.

Why requirement

Why was the work performed? Was it conducted for the purpose of achieving advancement of scientific knowledge or for the purpose of achieving a technological advancement?

How requirement

How was the work performed? Work must be a systematic investigation or search that is carried out in a field of science or technology by means of experiment or analysis.

Registration/Claim process

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.

The program also offers taxpayers various services they can utilize to have the tax authority opine on the eligibility of their work, but no existing services offer preapproval/clearance on eligibility.

Other grants and incentives

The main source of R&D 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 R&D incentives.

These programs (unlike the SR&ED Program) change from time to time and often have maximum spending caps in place, so many tend to be more difficult to navigate.

The federal Industrial Research Assistance Program (IRAP) is an example of an additional federal grant program that provides financial support to qualified SMEs in Canada to help them undertake technological innovation.

The basic eligibility criteria for IRAP funding are:

- SME 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 adviser in its industry, who will assist it with its 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, film production, and visual effects.

Other noteworthy organizations that offer incentives that may include R&D include Regional Development Agencies; Ministry of Innovation, Science & Economic Development; and Global Innovation Clusters, and Canada is in the process of forming the Canada Innovation Corporation, which is anticipated to be absorbing several of the funds listed above and programs with the exception of the SR&ED tax credit regime.

Chile

Introduction

The Chilean Research and Development (R&D) regime is a tax incentive available until December 31, 2025, which is applicable to corporate income tax (CIT) taxpayers who determine their income based on full accounting records. The tax benefit is determined over the expense or disbursement incurred for private R&D projects, provided that they are the result of R&D contracts entered into with Research Centers duly registered by the Chilean Economic Development Agency (CORFO), or R&D projects executed by the corresponding company according to its own capabilities or those of third parties, provided that the R&D projects are duly certified by CORFO.

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Overview of R&D incentives

Companies that directly invest in R&D (Project), or those contracting the services of a Research Centers duly registered with CORFO (Contract), will be entitled to a tax credit of 35 percent of the resources allocated to R&D, which can be deducted from their CIT. The remaining 65 percent of the company's R&D investment may be deducted as an expense from its taxable income.

Definition of R&D

For purposes of the Chilean R&D regulation, research and development shall be understood as the following:

- **Research:** Methodical investigation that aims to generate new knowledge in the scientific field or technology, which may be basic or applied. Basic research is understood as the experimental or theoretical works undertaken for the obtention of new knowledge about phenomenon and observable facts, regardless of whether they have a specific application or use. Applied research consists of original investigation carried out to acquire new knowledge, which is driven towards the obtention of a specific practical objective. The term "research" encompasses both basic and applied research.
- **Development:** Systematic work that uses existing knowledge for the production of new resources, products, or devices; implementation of new processes, systems, and services; or the substantial improvement of existing ones. Experimental development includes the development of computer programs, provided that such development leads to greater knowledge with the objective of systematically resolving a scientific or technological uncertainty or allows generating a substantial and innovative improvement in some process, product, and/or service.

The term "R&D" includes research and/or development activities.

R&D tax relief

Companies that directly invest in R&D Projects, or those contracting the services of a research center that is registered with CORFO, will be entitled to a tax credit of 35 percent of the resources allocated to the R&D Project or Contract. The tax credit is capped annually at approximately USD1 million. The certified remaining 65 percent of the company's R&D investment (plus the amount in excess of the aforementioned cap) may be deducted from the taxable income, regardless of the company's line of business, in up to 10 consecutive commercial years starting in the year in which the R&D contract or project is certified, and the payment has been effectively made.



The R&D tax credit can be carried forward indefinitely in case of companies that are in a tax loss position, or that do not have sufficient tax against which to apply the R&D tax credit.

Eligibility requirements

This regime is available until December 31, 2025 and is applicable to CIT taxpayers that determine their income based on full accounting records and that enter into an R&D Contract with a CORFO-registered research center or that directly develop an R&D Project using their own resources or those of third parties.

R&D investments made with public funds are excluded from the R&D regime.

The R&D investment must be greater than 100 UTM (approximately USD6,888).

The R&D Project or Contract must be certified by CORFO and a variable fee (from USD688, approximating to 4 percent of the total cost of the Project or Contract) must be paid to this entity at the time of applying for certification.

Registration/Claim process

In order to access the R&D tax benefits, the Projects developed by the applicable company, or the Contracts entered into with research centers must be certified by CORFO. There are two types of certifications:

- **Standard certification:** Companies apply for certification via CORFO's website, attaching all the documentation required for such purposes. R&D tax benefits may be claimed only once the certification is issued.
- **Manifestation of intention to avail the R&D tax benefit:** Taxpayers may give notice to CORFO that they intend to carry out a Project or enter into an R&D Contract. Once this is done, 65 percent of the disbursements related to such Contract or Project may begin to be deducted as an expense. The aforementioned notice must be made online, through CORFO's website, within 30 calendar days following the first R&D-related disbursement.

The company that makes use of the expense benefit under this modality, will have a period of 18 months, counted from the manifestation of intention, to make the request for certification of the R&D Project or Contract to CORFO. Only once such certification has been issued, the taxpayer will be able to use the tax credit benefit.

Whichever certification modality is chosen, the certification must be granted by CORFO within 180 calendar days from the date of receipt of the certification request. The certification, if granted, will be issued by CORFO through a substantiated resolution.

R&D tax benefits are claimed annually through the company's annual income tax return (Form No. 22), which must be filed in April of the year following the year in which the disbursement took place.

R&D tax relief – Other relevant information

R&D-certified contract with a registered research center

- CORFO certification involves the following:
 - Conduct a review of the R&D Contracts, which shall only have the purpose of verifying that the purpose of such contracts is the performance or execution of R&D work, without regard to the relevance or value of the initiative
 - Verify that the R&D Contracts are entered into in relation to the organization and means available to the respective registered Research Center, as well as that the price agreed upon in such contracts adequately reflects the costs that will be incurred to carry out the R&D activities to which they refer, and that the price is adjusted to the conditions observed in the market
- The tax base for the R&D benefit is calculated by using the total amount disbursed in an R&D Contract excluding the financing with public funds
In the event that the company enters into a non-certified contract, it will only be entitled to deduct 65 percent of the disbursements made in connection with the R&D contract and will not be entitled to the 35 percent tax credit. Nevertheless, certification at a later date, may allow the taxpayer to qualify for the benefit of the tax credit
- The benefit also applies if the Chilean company receives funds from any other entity or third parties (excluding cash from public funds).

R&D project

- CORFO certification involves verifying:
 - That the R&D Projects submitted by the taxpayer are effectively aimed at carrying out or executing R&D work
 - That the disbursements arising from such projects adequately reflect the costs incurred or to be incurred to carry out the R&D activities to which they refer and that such costs are in line with conditions observed in the market.
- The R&D tax benefit base consists of the total payments made by the company for current expenses together with the annual depreciation (normal or accelerated) of the tangible fixed assets acquired under the R&D Project
- R&D Projects may be carried out by taxpayers with their internal capacities (infrastructure, equipment, and human resources) or by third parties that are engaged for this purpose
- Payments for contracts with legal entities or individuals for services that are directly related to the R&D Project may be deducted as an expense. Nevertheless, it is required that at least 50 percent of such expenses correspond to activities carried out within the national territory.

Note that the R&D tax incentive does not exclude the eligibility to apply for public funding. In this regard, CORFO offers funding programs and financial instruments aimed at the implementation, creation, or development of R&D and Innovation projects. This may also include projects centered on increasing productivity, training personnel, or networking different institutions. Since there are several programs, requirements, and application dates and considering that they may change through time, it is recommended to periodically consult the CORFO website.

Taxpayers that make use of the R&D tax benefit must report the expense through Affidavit No. 1847 (for FY 2024, it has to be submitted until June 28) and the respective tax credit through their annual income tax return via Form No. 22 (tax returns must be submitted in April of each year). Furthermore, companies that make use of the R&D benefit and that have received public funds from the state for the same purposes, must file Affidavit No. 1841 (for FY 2024, it has to be submitted until March 28). For their part, Research Centers must file R&D Affidavit No. 1840 (same deadline as Affidavit No. 1841).

China

Introduction

The Chinese R&D tax super deduction has been in place for over 10 years. Encouraging R&D and innovation activities has become a national policy and is a priority of the Chinese government.

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Overview of R&D incentives

China-based companies that are qualified as high- and new-technology enterprises (HNTEs) are eligible for a reduced CIT rate of 15 percent.

China-based companies under nonrestricted industry sectors including HNTE-certified companies are eligible for tax super-deduction of 200 percent (from year 2023).

All China-based companies with eligible technology transfer income within RMB5 million are exempt from CIT. Additionally, the income exceeding RMB5 million shall be subject to CIT at 50 percent reduction.

China-based advanced technology service enterprises (ATSEs) are eligible for a reduced CIT rate of 15 percent.

Eligible key software enterprises will be exempted from CIT for five consecutive years and subject to a reduced CIT rate of 10 percent afterward.

Eligible software enterprises will be exempted from CIT for the first and second years of profitability and subject to a reduced CIT rate of 12.5 percent for the years three through five.

Definition of R&D

An enterprise applying new science and technology knowledge creatively for the purpose of obtaining new scientific or technological knowledge or carrying out systematic activities with specific goals continuously for substantive improvement of technologies, products (services), and processes.

R&D tax relief

Specific High and New Technology (HNT) industries

China-based companies that qualify as HNTEs are eligible for a reduced CIT rate of 15 percent (down from 25 percent) for three consecutive years.

Eligibility requirements

HNTE status (Specific HNT industries)

China-based companies that satisfy all of the below criteria:

- Established for more than one year at the time of application
- Own the intellectual property of key technologies that show core support to their main products (services) through independent R&D, transfer, donation, merger and acquisition, etc.



- Working in one of the following eight specified areas:
 - Electronic information
 - Biology and new medicine
 - Aerospace
 - New material
 - High-technology service
 - New energy and energy saving
 - Resource and environment
 - Advanced manufacture and automation
- Employees engaged in R&D and related technology innovation activities must account for more than 10 percent of all employees for the latest year
- R&D expenses are not less than the following percentage of sales income in the preceding three fiscal years, and R&D expenses incurred within PRC shall not be less than 60 percent of total R&D expenses
 - Five percent if the latest annual sales revenue is less than RMB50 million
 - Four percent if the latest annual sales revenue is between RMB50 million and RMB200 million
 - Three percent if the latest annual sales revenue is over RMB200 million.
- Revenue derived from HNT products must account for more than 60 percent of total revenue for the latest year
- Get a score higher than 70 from the four-part innovation capacity scorecard of “Intellectual property (30)”, “Capability to transform scientific and technological achievements (30),” “Organizational management level of research and development (20),” and “Enterprise growth (20)”.

R&D tax relief

R&D super deduction (nonrestricted industry sectors including HNTE-certified companies)

From 2023:

- Two hundred percent tax deduction on qualified R&D expenses (R&D super deduction) incurred during the year, if:
 - Such R&D expenses do not give rise to the formation of intangible assets
 - Qualified R&D expenses are capitalized as intangible assets, 200 percent of the capitalized R&D expenses constitute the costs of intangible assets subject to amortization.

Eligibility requirements

R&D super deduction

Nonrestricted industry sectors including HNTE-certified companies

- Eligible R&D activities include:
 - Obtaining new knowledge of science and technology
 - Creatively using new scientific and technological knowledge
 - Substantially improving technologies, products (services), and processes.
- Qualified R&D expenses refer to:
 - Staff cost
 - Direct cost
 - Fixed assets depreciation
 - Amortization of intangible assets
 - New product design fees, new technical programming fees, and clinical trial fees for new drugs
 - Additional other relevant expenses (10 percent).
- Restricted industries include:
 - Tobacco manufacturing
 - Accommodation and catering industry
 - Wholesale and retail
 - Real estate industry
 - Leasing and commercial services industry
 - Entertainment industry.

R&D tax relief

Technology transfer

Technology transfer (all residential companies with eligible technology transfer income):

- All China-based companies with eligible technology transfer income within RMB5 million are exempt from CIT, and the income exceeding RMB5 million is subject to CIT at 50 percent reduction.

R&D tax relief

Advanced technology service enterprise (ATSE) (specific service industries)

China-based ATSE-eligible companies can enjoy the following incentives:

- Resident companies that are qualified as ATSE are eligible for a reduced CIT rate of 15 percent (down from 25 percent)
- Revenue derived from offshore outsourcing services may be exempted from VAT.

Eligibility requirements

ATSE (specific service industries)

China-based companies that satisfy all the criteria below:

- Working in at least one of the specified advanced technology services (ATS) industries, that is, information technology outsourcing, business process outsourcing, and knowledge process outsourcing with advanced technology or strong R&D capacity
- Employees with diploma or above must account for more than 50 percent of all employees
- Revenue derived from ATS must account for more than 50 percent of total revenue for the year
- Revenue derived from offshore outsourcing services must account for more than 35 percent of total revenue for the year.

R&D tax relief

Software enterprise (qualified software enterprises)

Eligible companies are exempt from CIT for the first and second years of profitability and will be subject to a reduced CIT rate of 12.5 percent for the third to fifth year (down from 25 percent).

Eligibility requirements

Software enterprise (qualified software enterprises)

China-based companies that satisfy all the criteria below:

- Employees with bachelor's degree or above must account for more than 40 percent of all employees, while R&D personnel must account for more than 25 percent of all employees.
- R&D expenses are not less than 7 percent of sales income, and R&D expenses incurred within PRC shall not be less than 60 percent of total R&D expenses

- Revenue derived from software product sales or operation must account for more than 55 percent of total revenue, while revenue derived from self-developed software must account for more than 45 percent of total sales of the year
- In case of embedded software, revenue derived from embedded software product sales or operation must account for more than 45 percent of total revenue, while revenue derived from self-developed embedded software must account for more than 40 percent of total sales for the year
- Companies must own IP and have suitable software development conditions.

R&D tax relief

Key software enterprise (qualified key software enterprises)

Eligible companies will be exempted from CIT for five consecutive years and subject to a reduced CIT rate of 10 percent thereafter.

Eligibility requirements

Key software enterprise (qualified key software enterprises)

In addition to meeting the requirements of software enterprise (qualified software enterprises), at least one of the following requirements should also be met:

- For enterprises specializing in the development of basic software and R&D design industrial software, the total income from software product development sales and related information technology services income in annual CIT filing should not be less than RMB50 million and the total amount of R&D expenses in annual CIT filing should account for no less than 7 percent of the total sales of the enterprise
- For enterprises specializing in the development of production control industrial software, emerging technology software, and information security software, the total income from software product development sales and related information technology services income in annual CIT filing should not be less than RMB100 million, the taxable income should not be less than RMB5 million, the average monthly number of R&D personnel should account for no less than 30 percent of the enterprise's average total number of employees, and the total amount of R&D expenses in annual CIT filing should account for no less than 8 percent of the total sales of the enterprise

- For enterprises specializing in the development of key field application software, business management industrial software, public cloud service software, and embedded software, the total income from software product development sales and related information technology services income should not be less than RMB500 million, the taxable income should not be less than RMB25 million, the average monthly number of R&D personnel should account for no less than 30 percent of the enterprise's average total number of employees, and the total amount of R&D expenses in annual CIT filing should account for no less than 7 percent of the total sales of the enterprise.

Registration/Claim process

R&D super deduction; Technology transfer; Software enterprise

Enterprises receiving incentives shall adopt the method of "self-assessment, declaration of incentives enjoyed, and retention of the relevant materials for future inspection."

An enterprise shall assess on its own whether it satisfies the criteria stipulated for the incentive(s) based on its business performance and the relevant tax collection provisions; the enterprise may compute the tax reduction or exemption amount in accordance with the duration set out in the list if it satisfies the criteria and receives tax incentive(s) by filing a CIT return. Simultaneously, it shall collect and retain the relevant materials for future inspection pursuant to the provisions of these measures.

Registration/Claim process

HNTE; ATSE; Key software enterprise

Enterprises receiving incentives must first submit an application to the in-charge science and technology bureau. After the certificate is granted, enterprises may receive tax incentive(s) by filing an enterprise income tax return.

Other grants and incentives

Local governments may grant extra subsidy for accredited HNTE and/or claimed R&D expenses.

Colombia

Introduction

The Colombian system of tax incentives for research and development provides for a deduction or tax credit for research, development, and Innovation (R&D&I), which is credited to the taxpayer's tax obligation, as well as to the VAT exemption. Both the deduction and the tax credit cannot be claimed together (they are exclusive on the same investment). A large company will only be able to apply for the tax credit if it is in co-execution with a micro, small or medium-sized enterprise.

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Overview of R&D incentives

A discount of 30 percent or a tax credit of 50 percent of the investments in RD&I projects, or deduction of 100 percent whose percentage varies depending on kind of incentives and the circumstances is available. Also, a VAT exemption is granted upon the imports of certain capital goods for technological institutions.

Definition of RD&I

Scientific research is related to the OECD definition in the Frascati Manual: It is a systematic process that begins with the understanding of the foundations of observable phenomena and facts (basic research), ending with the introduction and implementation of solutions to problems that different sectors of society face daily, which translates into the improvement of the country's social and economic indicators. These projects are classified into three types: (i) scientific research projects (which include basic research, applied research, and experimental development), (ii) technological development projects, and (iii) innovation projects.*

Technological development is the "application of the results of the investigation, or of any other types of scientific knowledge, for the manufacture of new materials and products; for the design of new processes, production systems, or rendering of services; as well as the substantial technological improvement of preexisting materials, products, processes, or systems.

This activity will include the materialization of research results on a blueprint, schematic, or design, as well as prototyping not marketable and initial demonstration projects or pilot projects, provided they are not converted or used in industrial applications or for commercial exploitation.*"

The projects that could be qualified as technological development are the technological development projects that consist of validations of prototype-level solutions and pilot, before performing an industrial-level scaling, the objective of which is to reduce uncertainty generated from solutions based upon theoretical issues.

Innovation project: This category includes:

- **Product innovation:** "Its main purpose is the process of developing, scaling, and introducing new products or services for the sector, region, or country, as well as significantly improving products, that is, that modify some characteristic of the product in such a way that it has the best performance." *



- **Process innovation:** "Its main objective is the introduction of new processes to produce a new or significantly improved product or service, that is, that modify components of the process to improve its performance in terms of cost reduction and capacity increase."*

* Primer on the typology of projects classified as scientific, technological, and innovation, Version 7, National Council for Tax Benefits in Science, Technology and Innovation – CNBT.

R&D tax relief

1. **Tax benefits for investment:** It is granted to companies that execute science, technology, and innovation projects, in alliance with an actor recognized by the MSTI, considering the criteria and conditions defined by the National Council of Tax Benefits through agreements and the Document of Typology of Projects of a scientific, technological, or innovation nature. The tax benefits are as follows:
 - A. **Tax discount for investments in science, technology, and innovation projects:** Investments made in research, technological development, and innovation will have the benefit of deducting 30 percent of the value invested in the period from their income tax payable if such investments meet the criteria and conditions defined by the National Council for Tax Benefits in Science, Technology and Innovation – CNBT and do not exceed 30 percent of the tax to be paid. In the event of unused surpluses or tax discounts, the taxpayer may transfer them to the following four income tax returns, as established in Article 258 of the Tax Code.

C. **Tax Credit for investments in science, technology, and innovation projects:**

Investments made by Micro, Small, Medium and Large companies in projects classified as Research, Technological Development, and Innovation, in accordance with the criteria and conditions defined by the National Council for Tax Benefits in Science, Technology and Innovation – CNBT, will be able to access a tax credit for a value of 50 percent of the investment made and certified by the CNBT applicable for the compensation of national taxes.

In cases where micro, small and medium-sized enterprises have current tax credits of more than 1,000 UVT for investments in projects classified as Research, Technological Development, and Innovation, they may apply for Tax Refund Titles – TIDIS for the value of the tax credit, which are freely marketable.

2. **Tax benefits for linking high-level human capital in companies:** The remuneration corresponding to the employment of personnel with a doctoral degree in companies, which is made after May 25, 2019, as long as the criteria and conditions defined by the CNBT for this purpose are met and their relationship is associated with the development of RD&I activities, they will be able to access the tax benefit of a 30 percent discount on the remuneration effectively paid to personnel with a doctorate degree, or in the case of MSMEs, they will be able to access the tax credit mechanism for 50 percent of the value of the remuneration of personnel with a doctoral degree.

3. **Non-income constituting income and/or occasional gain:** This tax benefit is granted to personnel who develop Science, Technology, and Innovation activities within the framework of a qualified project under the conditions of the National Council of Tax Benefits in Science, Technology, and Innovation – CNBT, allowing researchers to deduct from the income that constitutes their taxable base, the value of the fees received for these tasks. This tax benefit is also applicable to the resources received by the taxpayer to be used for the development of projects classified as scientific, technological, or innovative in nature, according to the criteria and conditions defined by the National Council for Tax Benefits in Science, Technology and Innovation – CNBT.

4. **VAT exemption for importation of equipment and elements:** This tax benefit is granted to Research and Technological Development Centers recognized by the MSTI, as well as to primary, secondary, middle, or higher education institutions recognized by the Ministry of National Education, which, within the framework of a Science, Technology and Innovation project, qualified according to the criteria and conditions defined by the National Council for Tax Benefits in Science, Technology and Innovation – CNBT. Import equipment and elements required for the development of their projects may obtain exemption from VAT tax at the time of nationalization.
5. **Tax benefits for donations in science, technology, and innovation:** Donations received in cash by the National Fund for Financing Science, Technology and Innovation, Francisco José de Caldas Fund, and which are intended to finance Science, Technology and Innovation Programs and/or Projects, in accordance with the criteria and conditions indicated by the National Council for Tax Benefits in Science, Technology and Innovation – CNBT, will entitle the donor to deduct the value of the amount donated and also access the tax discount of 30 percent of the value donated, as long as the processes and procedures for this purpose are complied with.

Eligibility requirements

For tax discount and tax credit: Taxpayers must register the scientific, technological, or innovation project with the CNBT. The following is required: (i) the project must qualify as scientific research, technology development, and/or innovation project (the definitions are provided by the CNBT); (ii) the project researchers must provide basic information, such as their educational background and work experience, in an electronic résumé that is sent to the Science and Technology Directorate (CvLAC); (iii) the project must be registered at the Integrated Project Management System (SIGP) of the MSTI, through the tax incentives digital form. All required documents must be in a digital format.

Please be advised that, for the tax credit related to the engagement of personnel with PhD degrees, the company must certify to the CNBT that (i) the employee has a PhD degree of a Colombian or foreign entity recognized by MinCiencias and (ii) the employee is engaged in R&D projects within the company.

For VAT exemption: It is also mandatory to file the quotation of the equipment to import.

Registration/Claim process

Imports of certain capital goods for technological institutions recognized by the MSTI and the Ministry of Education (MinEducación) and intended for projects characterized as scientific research, technological innovation, and technological development are exempt from IVA.

1. If the registered project does comply with all requirements, the CNBT will issue a document preapproving the tax benefit
2. The company must certify the CNBT the investments made. For this, the taxpayer needs to file a technical and financial report signed by an auditor and the legal representative, certifying the amounts invested in the project
3. Each year in March, the CNBT issues the tax benefits certifications to the companies and notifies to the Tax Authority
4. Companies must claim the tax benefits for the same FY in which the investment was done
5. Micro, small, midsize, and large companies' tax credit may claim the tax benefits for the same or following fiscal year in which the investment was made.

Croatia

Introduction

The Croatian R&D incentives regime is laid within the Law on State Aid for R&D that came into force on July 26, 2018. The Law aims to increase private sector investment in R&D, increase the number of entrepreneurs investing in R&D, and encourage cooperation between entrepreneurs and organizations for research and dissemination of knowledge on R&D projects.

R&D incentives are provided in the form of additional taxable base reduction for eligible R&D expenses for R&D projects or feasibility studies.

Beneficiaries are legal entities and individuals with R&D projects that include fundamental research, industrial research, experimental development, or a feasibility study.

The maximum aid intensity that a beneficiary may receive is:

- One hundred percent of eligible costs for fundamental research
- Fifty percent of eligible costs for industrial research
- Twenty-five percent of eligible costs for experimental development
- Fifty percent of eligible costs for the feasibility study.

The maximum aid intensity for industrial research and experimental development as well as for feasibility studies could be further increased up to 10–20 percent for SME, depending on the size of the taxpayer.

An SME for R&D purposes, including any grouped or partner enterprises as defined by the EU Commission GBER, is defined as a SME with:

- Fewer than 250 employees
- Turnover not exceeding EUR50 million per annum or gross balance sheet assets not exceeding EUR43 million.

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Overview of R&D incentives

The maximum aid threshold that a beneficiary may receive per R&D project is:

- a. For predominantly basic research, up to EUR300,000.00
- b. For predominantly industrial research, up to EUR200,000.00
- c. For predominantly experimental development, up to EUR100,000.00
- d. For feasibility studies in the preparation of research activities, up to EUR50,000.00 per study.

The threshold applies per beneficiary, per project/study and is determined in Croatian kuna equivalent.

The maximum aid threshold may be significantly increased if more than 50 percent of the research costs incurred are based on:

- Third-party contracts
- Knowledge and patents obtained or licensed by third parties
- Costs of advisory and similar services obtained exclusively for the R&D project contracted with organizations for research and dissemination of knowledge.

On that basis, the maximum total aggregate aid for an R&D project that a beneficiary may receive is the following:

- a. For predominantly basic research, up to EUR40 million
- b. For predominantly industrial research, up to EUR20 million
- c. For predominantly experimental development, up to EUR15 million.

Definition of R&D

The definition of an R&D project—as well as categorization of an R&D project as fundamental research, industrial research, or experimental development—is contained within the Law and the accompanying Regulations that are generally in line with the OECD Frascati Manual principles for defining R&D.



R&D involves creative and systematic work undertaken with the aim of increasing knowledge—including knowledge of humanity, culture, and society—and devising new applications of existing knowledge. R&D activities must include the following five basic criteria:

- New knowledge (as aim of the activity)
- Creative (new concepts, ideas, and methods that improve existing knowledge)
- Uncertain in terms of the outcome
- Systematic (planned with funding and recording of outcomes)
- Transferable (outcomes are transferable as new knowledge) and/or possible to repeat (outcomes can be repeated).

R&D tax relief

The beneficiary of the aid is entitled to an additional decrease of its corporate profit tax base for the eligible R&D costs or feasibility study up to:

- a. Two hundred percent of the eligible R&D costs for fundamental research
- b. One hundred fifty percent of the eligible R&D costs for industrial research
- c. One hundred twenty-five percent of the eligible R&D costs for experimental development
- d. One hundred fifty percent of the eligible R&D costs for feasibility study.

The decrease of the corporate profit tax base within the annual corporate profit tax return is calculated as:

- Decrease of corporate profit tax base = Total eligible R&D costs x percentage of decrease of tax base for the type of R&D.

Eligibility requirements

Not all the detailed rules can be covered here, but the main requirements are the following:

Eligible costs include:

- Personnel costs (researchers, technicians, and other supporting staff working hours apportioned to the R&D project)

- Depreciation costs of instruments and equipment
- Costs of contractual research, knowledge, and patents obtained by third parties at market value
- Costs of consultancy and equivalent services exclusively related to R&D project
- Additional overheads and other operating expenses.

Only R&D project costs realized within the three years from the commencement of the R&D project are eligible.

The aid will not be granted to R&D projects artificially separated—into several R&D projects with similar characteristics, objectives, or beneficiaries—with the aim of avoiding the maximum aid thresholds.

Ineligible expenditures include project expenditures that are related to future revenue in the following sectors:

- Real estate
- Gambling and betting
- Financial services and insurance
- Social welfare, or
- Retail and wholesale.

Aid cannot be granted to:

- A company experiencing financial difficulties
- A company over which a bankruptcy proceeding or a prebankruptcy settlement procedure is initiated
- A company that has unsettled tax and/or social security liabilities or unsettled liabilities toward its employees, or
- A company that has recorded previous infringements related to European Commission aid.

Registration/Claim process

The application for an R&D project must be made to the Ministry of Economy, Entrepreneurship and Crafts on prescribed forms prior to the commencement of R&D project activities.

An application is thoroughly examined by the ministry, and following approval, a formal resolution on the status of the beneficiary of incentives is issued.

The beneficiary must submit an annual report to the Ministry on R&D project activities undertaken. Based on the annual report on R&D project activities undertaken, the Ministry issues a formal approval for the use of aid for the preceding period.

Other grants and incentives

Certain R&D activities may also qualify for incentives under the Law on Investment Promotion where a taxpayer may benefit from the following:

- A corporate profit tax rate (CPT rate) decrease for a period of up to 10 years
- Cash grants; or
- All up to the set maximum investment incentive of the qualifying project.

The maximum investment incentive, cumulative for tax and monetary incentives (cash grants), is limited to a percentage of the eligible costs of the investment.

Eligible costs are measured by:

- The value of the investment in fixed and intangible assets recognized in the investor's balance sheet
- The cost of creating new jobs.

The tax investment incentive is granted in the form of a reduced CPT rate for a period of 10 years (or less if the maximum investment incentive is reached earlier).

Conditions for application of a reduced CPT rate:

- Fifty percent CPT rate reduction: EUR0.15–1 million investment made and at least five new jobs created
- Seventy-five percent CPT rate reduction: EUR1–3 million investment made and at least 10 new jobs created
- One hundred percent CPT rate reduction: > EUR3 million investment made and at least 15 new jobs created.

Different conditions apply to micro-sized companies and IT system development projects.

Minimum period for maintaining the investment and newly created jobs is five years for large taxpayers and three years for micro, small, and medium-sized taxpayers but must be maintained throughout the entire period of using tax incentives (if longer).

Cash grant can be obtained for new jobs created in R&D activities of the beneficiary.

Czech Republic

Introduction

In the Czech Republic, the R&D tax allowance (R&D allowance) is one of the main policy tools to promote R&D activities in the private sector. It represents an essential pillar of the R&D funding for Czech companies. Moreover, for certain activities, cash grants are available on project basis from both local and EU funds.

The R&D allowance scheme has been in place since 2005. It is defined in the Czech Income Taxes Act (ITA); detailed information is provided by the Ministry of Finance in the Decree No. MF-17.

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Overview of R&D incentives

A taxpayer may deduct up to 100 percent of the costs associated with the projects of R&D as a special tax allowance (in addition to standard tax deductibility of costs incurred). Furthermore, a taxpayer may increase the deduction by additional 10 percent for the year-over-year increase of costs related to the R&D projects.

Definition of R&D

The ITA refers to the Act on the Support of R&D where the R&D is defined as “creative work undertaken on a systematic basis in order to increase knowledge and the use of such knowledge, which includes an appreciable element of novelty, for resolving scientific and/or technical uncertainty.” This definition complies with the international definition of R&D activities published in OECD’s Frascati Manual.

The basic criteria that distinguish R&D from other activities are the presence of a measurable element of novelty and clarification of research or technical uncertainties.

Qualified activities include the introduction of new or improved technologies, systems, or services and the production of new or improved materials, products, and equipment. Activities include design and verification of prototypes, pilots, or demonstration equipment.

R&D tax relief

A taxpayer may deduct up to 110 percent of the costs associated with the R&D projects from the tax base as a special tax allowance.

These costs are in fact deducted twice from the tax base—as a normal tax-deductible cost and as a special tax allowance. Where the costs only partly relate to the implementation of R&D projects, only such portion of expenses pertaining to the R&D projects may be deducted from the tax base.

If the R&D allowance cannot be utilized in the year it is claimed, it may be carried forward and utilized within the next three taxable periods.

If taxpayers are not sure whether the incurred costs are eligible to be deducted as an R&D allowance, they can request a binding ruling from the tax authority confirming that in such cases, the expenses were incurred during the undertaking of R&D projects.



Eligibility requirements

In order to be entitled to claim the R&D tax allowance, the taxpayer needs to meet the requirements set out in Sections 34b, 34ba, and 34c of the ITA, that is:

- Keep separate evidence of R&D costs divided on individual projects and accounting entries
- Submit an official notification of intention to carry out the R&D project before the start of the project to the tax administrator (separately for each project)
- Prepare a written report regarding a particular R&D project that specifies the qualified activities before the deadline for filing a regular tax return.

Furthermore, the following should be considered regarding the eligible R&D costs:

- R&D costs must be associated either with the R&D project being in the form of experimental or theoretical work, design or drawing work, calculation, proposed technology, or the making of a functional sample or a product prototype
- Only the costs incurred to generate, ensure, or maintain the taxable income of the taxpayer qualify for the R&D allowance
- The deduction of R&D costs cannot be applied to services, license fees, or intangible results of R&D acquired from other persons (except for services received from a public university or research organization specified in the Act on the Support of R&D or a consideration for a financial lease of tangible movable assets that is connected with the R&D project)
- The deduction cannot be applied to costs for which a public subsidy has already been provided.

Registration/Claim process

The taxpayer who intends, in relation with carrying out an R&D project, to make a deduction from the tax base, is obligated to submit an official notification of such fact before the start of the project to the tax administrator separately for each R&D project. The R&D tax allowance is claimed in the CIT return as an item deductible from the tax base.

R&D tax relief – Other relevant information

The costs incurred after the notification, which can be treated as eligible for the R&D tax allowance, are defined in more detail in the Decree No. MF-17.

The eligible groups of expenses include:

- Personal expenses of relevant employees (not only the R&D employees but also other employees of the taxpayer who are involved in the R&D projects, such as workpeople).
- Tax depreciation of fixed assets used in direct connection with the R&D projects.
- Other operational expenses directly related to the project, such as expenses for materials, inventory, and low-value tangible and intangible assets; expenditure for books and magazines; electricity; heating; gas; telecommunication fees; water utilities; etc.
- Expenses incurred for the services received from a public university or research organization specified in the Act on the Support of R&D. The law also allows the costs of services related to the verification of R&D results (usually certification) to be claimed as a deduction, provided that the service provider did not claim these costs in the deduction itself.
- A consideration for a financial lease of tangible movable assets that is connected with the R&D project.
- Travel expenses up to the statutory limits.

Denmark

Introduction

In Denmark, an increased deduction for costs incurred for R&D activities, was introduced with effect from the income year 2018. For the income years 2023 and 2024, the increased deduction is 108 percent and will be increasing to 110 percent in 2026.

If a company is loss making, it is possible to opt for a reimbursement of the tax value (22 percent) of the cost of R&D activities as a tax credit not exceeding the tax value of the tax loss and not exceeding DKK5.5 million. The possibility to get a tax credit for R&D costs in a loss-making company is not affected by the increased deduction. Consequently, it is possible to obtain the enhanced R&D deduction and a tax credit for the tax value of R&D costs under s. 8X of the Tax Assessment Act scheme.

The Danish Tax Authorities have a compliance team to investigate whether companies are entitled to:

1. Tax credit (reimbursement of losses due to R&D costs incurred)
2. Additional deductions, etc. in the tax return.

In our experience, the Danish tax authorities have a very narrow interpretation of which costs qualify for additional deduction especially when R&D costs related to production processes have been incurred.

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Overview of R&D incentives

Definition of R&D

The wording of the Act and the preparatory work does not include a clear definition of the costs covered by the R&D definition. However, the preparatory work has an overall description stating that costs for basic research, applied research, and development work can be included in the scope of the additional deduction and R&D activities, more generally; a few examples also show which costs are typically covered and which fall outside the definition.

The terms are defined as follows:

- **Basic research:** Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view.
- **Applied research:** Applied research is original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specific, practical aim or objective.
- **Experimental development:** Experimental development is systematic work, drawing on knowledge gained from research and practical experience and producing additional knowledge, which is directed at producing new products or processes or at improving existing products or processes.

As such, the R&D activities must meet the following criteria to be covered by the R&D definition in order for the costs to be included in the R&D incentive:

- New knowledge compared to already known knowledge in an area. The requirement for new knowledge is most stringent in basic research and applied research where original examinations are required, while in the context of experimental development, it is enough that scientific or technical knowledge is used to produce new products.
- Creative and thus not routine changes to products or processes
- Uncertainty regarding the resources to be invested to achieve the intended goal
- Systematic in relation to planning and documentation
- In principle, the acquired knowledge must be transferable and/or reproductive.



R&D tax deduction

In general, both direct costs and indirect production costs (overhead) can be included as deductible costs for R&D purposes. Further, both in-house research costs and contract research costs are within scope. The costs incurred must be from own operations and not from a customer entity. Research/development based on more general trends found in the market may well be deducted.

Costs related to development of new products can be included in the deduction insofar as the costs are incurred in order to develop new materials, products, processes, systems, or services.

In other words, this means that costs relating to developing new product lines and new products are covered. These can include, but are not limited to, prototyping, test of new materials, salaries, and other indirect costs.

Outside the scope of the R&D definition are costs relating to training, documentation, customer service, production planning, sales, and market analysis, etc.

The development of a new product will also include phases that are not covered by the R&D definition. For example, the costs related to marketing the products and other costs do not meet the requirements for novelty as required by the R&D regulations.

For software R&D, it is our understanding that the Danish Tax Authorities consider development of software, which is accessible for a fee/charge, as covered by the R&D deduction. However, routine development or maintenance for software development is not considered to be in scope of R&D activities.

In our experience, the Danish Tax Authorities are particularly critical of cases where costs have been incurred to generate new or substantially improved production methods (development of processes and systems), believing that the process/system must be sold in order to be eligible for the additional deduction.

The Danish Tax Authorities do not allow an additional deduction for R&D performed on machines for the production of the company's products, as they believe that these costs instead should be written off as operating equipment in accordance with the rules of the Danish Act on Amortization and Depreciation (Afskrivningsloven).

As described above, it is our opinion that costs for developing new processes, and systems can be included in the scheme. As stated, the Danish Tax Authorities do not completely agree with this. Based on the preparatory work for s. 8 B of the Danish Tax Assessment Act and the recent answer from the Minister of Taxation, we are highly critical of the Danish Tax Agency's interpretation of the rules. We are currently awaiting the Danish Tax Agency's response in relation to several specific cases.

R&D tax credit

Loss-making companies, companies, or companies with negative taxable income, companies with a negative taxable income may opt to receive a tax credit correlating to the tax value of their R&D expenses. This is capped at (1) the tax value of a loss of DKK25 million and the limit is applied to all companies subject to joint taxation and (2) the negative taxable income of the company. Any remaining negative taxable income can be carried forward. Further, the tax credit can be granted in conjunction with the R&D enhanced deduction.

The Danish tax authorities accept that the assessment of R&D expenses is on a gross basis, meaning the tax credit is not affected of any grants received to cover R&D expenses.

R&D capital expenditures accelerated depreciation

Expenditure related to the purchase of machinery, equipment, fixed property, etc. cannot be deducted, but may be subject to depreciation at once on the basis of the acquisition amount. The criteria to be included in the scope of R&D are the same as mentioned above.

Further, any acquisitions of plant and machinery (P&M) to be used in R&D can be depreciated immediately in the year of acquisition or depreciated for tax purposes on a straight-line basis over four years.

Development of new software can also be considered an R&D activity if new products are developed. More broadly, companies can claim a 100 percent deduction on software costs in the year incurred or acquired. For development of software, incurred cost can be deducted at 100 percent in the year the software is finalized.

Lastly, while not in the scope for the R&D incentive directly, there is the possibility of depreciating the costs of short-lived assets and small assets in the year incurred. There are additional criteria to be met in order that the accelerated depreciation can be claimed.

Patent-related incentives

Companies may write off the acquisition of patents and know-how in the year of acquisition or amortize over a seven-year period on a straight-line basis.

There is no patent box regime in Denmark.

R&D grants including ESG-related grants

Opportunities exist in Denmark to secure grants and loans for research-based projects particularly in innovative and sustainable solutions for the benefit of society. Specific industries have additional sources of funding relating to the ESG agenda, digitalization, and also, more generally, for the benefit of society.

Other R&D incentives

In order to attract highly specialized foreign research personnel, there are reduced personal income tax rate scheme that can be applied for, for a total of 84 months. For highly specialized personnel, there is a minimum threshold on earned income and certain employee benefits in order to earn the 27 percent tax rate (mandatory labor market contributions must also be applied). For researchers, who are qualified up to PhD degree level, there is no minimum threshold on earned income, but there are additional documentation requirements.

Companies registered for VAT and are VATable, may be eligible for a partial refund of the excise duties, for example, in their electricity consumption, which can assist companies undertaking R&D activities with their cash flow. There are refunds mechanisms for different excise duties available to most industries.

There are notable other incentives that are not in the scope of R&D activities per se but which are designed to encourage the competitiveness of Danish companies.

BEPS Pillar Two impact

The Danish tax authority has confirmed that R&D incentives are not qualified refundable tax credits.

Finland

Introduction

According to the latest statistics of the Central Statistical Office of Finland, the share of R&D expenditure amounted to 2.95 percent of the GDP (2022). The CIT rate in Finland is currently 20 percent.

Finland offers different national innovation incentives for R&D activities including tax incentives, grants, and loans. The R&D tax incentives in Finland include accelerated depreciation for R&D expenditure for the benefit of SMEs and large enterprises. In addition, government funding programs have been introduced.

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General overview

Definition of R&D

According to the Finnish law, R&D activities refer to fundamental research, industrial research, experimental development, and feasibility studies as defined in Article 25(2) of Commission Regulation (EU) No. 651/2014, which systematically aim at increasing or utilizing knowledge for the discovery of new applications.

R&D expense deductions

Expenses incurred for business purposes, such as R&D expenses, can be deducted from taxable income. These deductions are subject to the ordinary 20 percent CIT rate. All costs resulted from R&D activities are deductible. (Section 25, Business Income Tax Act [BITA])

Combined R&D deduction

With effect from January 1, 2023, the combined R&D deduction is available to all taxpayers engaged in business or agriculture. It applies to expenses related to R&D activities, which involve creative and systematic activities aimed at increasing knowledge or using knowledge for new applications, aiming for something substantially new. The combination deduction consists of two parts: first, a general additional deduction, set at 50 percent of qualifying expenses, with a minimum of EUR5,000 and a maximum of EUR500,000 per tax year, applicable starting from 2023, second, an additional deduction based on the increase in R&D expenses, set at 45 percent of the difference between qualifying expenses for the current tax year and the preceding one, with no minimum amount but capped at EUR500,000 per tax year, available starting from 2024. (Act no. 1298/2022)

Additional R&D deduction

Between 2022 and 2027, an additional R&D deduction is available. Accordingly, companies developing intangible rights in cooperation with universities and other institutions of higher education are granted an additional deduction of qualified R&D expenses at 1.5 times the amount for the tax year 2021 and at 2.5 times the amount for the tax years 2022–2027. The additional deduction is capped at EUR500,000 per year. A minimum deduction of EUR5,000 applies. (Act 1078/2020)



Depreciation of R&D expenditure

Instead of deducting incurred R&D expenses as annual costs, a taxpayer may alternatively capitalize the R&D costs and depreciate them over a two-year or longer period. Costs may be capitalized and depreciated for tax purposes even if, in accounting, the expenses are recorded as annual costs. R&D expense depreciations are subject to the ordinary 20 percent CIT rate. All costs resulted from R&D activities are deductible except acquisition costs of buildings used for R&D activities. (BITA Section 25)

Separately, acquisition costs of acquired IP is also fully deductible through straight-line depreciations over the economic life.

Accelerated depreciation on building used for R&D activities

Buildings and construction used solely for R&D purposes may apply an accelerated annual tax depreciation of 20 percent. The tax depreciation is calculated on a declining basis. (BITA Section 34 paragraph 5).

Other grants and incentives

Funding

The Finnish government provides grants and loans as incentives for R&D activities. The national R&D Grant of Business Finland, the Funding Agency for Innovation, provides public R&D funding for research, product development, and business development. The funding is provided in the form of grants and loans, and it is available to companies and research organizations. The funding is allocated to companies aiming for international growth.

Finland is particularly focused on funding SMEs but also provides funding for Finnish start-up companies and large/mid-cap companies.

Other incentives include loan funding, energy aid and targeting environmental sustainability, and production incentives.

Key employees

Taxation of foreign key employees' earnings is governed by special provisions of law, laid down in Act no. 1551/1995. Individuals arriving to Finland for periods longer than six months and thus becoming Finnish residents may, subject to certain restrictions, be treated as foreign key employees who only pay tax at source at the 32 percent rate.

The previous rate until December 31, 2019 was 35 percent. This relief is, however, not restricted only to employees working with R&D.

The requirements for applying the provisions of Act 1551/1995 are:

- The foreign national became a Finnish tax resident when they started working in Finland
- The employee is paid at least EUR5,800 per month during the entire employment
- The work requires special expertise
- The employee is not a Finnish citizen and has not been a Finnish tax resident, generally liable to tax in Finland, during the five calendar years prior to the start of the employment.

France

Introduction

France offers very attractive R&D incentives schemes, among which is the Research Tax Credit (RTC) or the *Crédit d'Impôt Recherche*, which is one of the most generous in the world. The RTC is a corporate tax relief scheme based on R&D expenditure incurred by companies subjected to CIT in France.

Along the RTC, other schemes in relation to (i) prototype designs of new products or pilot installations (limited to SMEs), (ii) Collaborative research with public bodies, (iii) Green investment, (iv) IP development, (v) the creation of innovative companies and (vi) various ranges of grants and subsidies exist.

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Overview of R&D incentives

Research Tax Credit (RTC)

The RTC amounts to 30 percent net of tax of the portion of R&D expenses below EUR100 million and is reduced to 5 percent when exceeding EUR100 million. The incentive is not capped.

The 30 percent net of tax RTC is:

- Obtained while simultaneously deducting qualifying expenditure from the taxable income
- Recognized as income in IFRS, improving net result.

Eligible activities

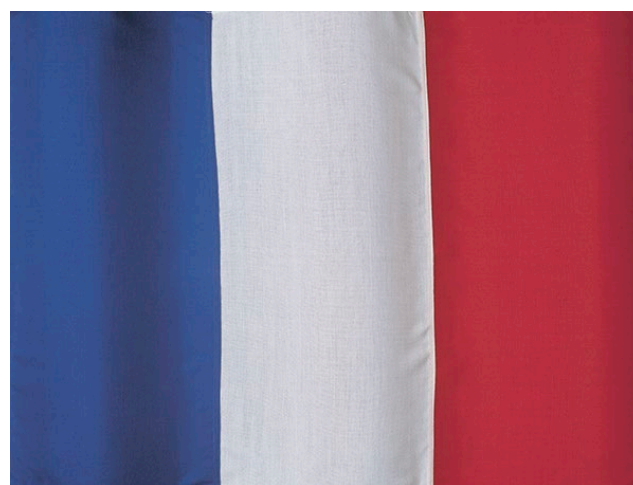
The RTC covers “scientific and technical” R&D operations (i.e., fundamental research, applied research, and experimental development).

- Fundamental research is aimed at making a theoretical or experimental contribution to the resolution of technical problems
- Applied research is aimed at identifying possible applications of the results of fundamental research or at finding new solutions enabling the company to reach a given objective chosen in advance
- The experimental development operations that fall within the scope of RTC are those carried out through the use of a prototype or pilot facilities, with the aim of gathering the information needed to provide the technical bases of decisions, in view of producing, or substantially improving, new materials, mechanisms, products, and/or service systems.

Research operations are RTC eligible if they meet the following five essential criteria:

- Aim at new findings (novel)
- Be based on original and nonobvious notions and hypotheses (creative)
- Be uncertain about the final outcome (uncertain)
- Be planned and budgeted (systematic)
- Lead to results that could be possibly reproduced (transferable and/or reproducible).

Research operations should reflect an originality or substantial improvement that does not result from a mere utilization of the current state of existing techniques to be eligible. In practice, the RTC is not limited to traditional R&D sectors, such as the pharmaceutical and automotive industries, it also extends to other industries such as banking and insurance, notably with respect to their development of innovative IT programs.



Eligible expenditure

Eligible expenses, which must be determined on a calendar-year basis, essentially consist of R&D staff, depreciation of assets used in R&D, outsourced R&D, technology watch (until February 14, 2025) and patent-related costs (until February 14, 2025).

Expenses may, in principle, relate to R&D operations located in the Economic European Area (EEA). Hence, companies may benefit from the RTC on expenditure incurred in the EEA even if such expenses have been deducted locally and/or have benefited from a local R&D incentive.

Indeed, the fact that the qualifying expenses have been deducted from the taxable results of the company benefiting from the RTC does not restrict its right to the tax credit nor does the fact that the R&D expenses are totally or partially invoiced abroad, so long as they were initially incurred by the French company benefiting from the RTC.

Consequently, this gives rise to cross-border optimization opportunities, which may, however, be impacted in the near future by the OECD BEPS program.

To claim the RTC, companies are not required to hold the IP rights resulting from their R&D activities in France.

Registration/Claim process

The RTC is offset against any CIT for the current year and, if need be, for the following three years. After this three-year period, any remaining unused portion of the company’s receivable from the state will be reimbursed to the company. This receivable is also transferable (to a bank, a credit institution, etc.) as soon as it is booked.

The RTC is immediately refundable to “newly created” companies (from the year of creation and the four following years), Young Innovative companies, Small and Medium-sized Enterprises (SMEs as defined by EU law), and distressed companies.

An RTC form must be filed together with the CIT returns no later than the 15th of the 4th month following the company’s financial year-end. For financial years ending on December 31, the deadline is set to May 15. If this deadline is not met, the company is allowed to claim the RTC until December 31 of the second year following the missed deadline.

The RTC can be audited until the end of the third year following that of the filing of the RTC form. Any company may seek an advance approval (ruling) from the authorities regarding the eligibility of an R&D project prior to engaging in the corresponding R&D operations. This ruling procedure is an option but is by no means a prerequisite to benefit from the RTC.

A ruling request needs to be filed at least six months prior to the filing of the RTC return. In order to ensure that they are properly applying the RTC rules and thereby secure their RTC claims, companies may also request an RTC audit from the tax authorities.

Innovation Tax Credit (ITC)

Companies that meet the definition of SMEs according to the EU law can benefit from an Innovation Tax Credit (ITC). The ITC credit rate is 20 percent, capped at EUR80,000 per annum (was 30 percent until December 31, 2024, capped at EUR120,000) and immediately refundable if not offset against the current CIT.

Definition of innovation

ITC applies to expenditure incurred for the design of prototypes or pilot installations of a new product.

This product must meet the following cumulative conditions:

- It must not be already available on the market
- It must outstand existing products, providing enhanced technical performances, eco-design, ergonomics, or functionality.

Eligible expenditure

Eligible expenses, which must be determined on a calendar-year basis, essentially consist of staff, depreciation of assets used in the activities, outsourced activities, and patent-related costs.

Expenses may, in principle, relate to activities located in the EEA. Hence, companies may benefit from the ITC on expenses incurred in the EEA even if such expenses have been deducted locally and/or have benefited from another local R&D incentive.

Indeed, the fact that the qualifying expenses have been deducted from the taxable results of the company benefiting from the ITC does not restrict its right to the tax credit nor does the fact that the R&D expenses are totally or partially invoiced abroad, so long as they were initially incurred by the French company benefiting from the ITC.

Registration/Claim process

The registration process and ruling procedures are strictly similar to the RTC incentive. Please refer to the aforementioned information.

Collaborative Research Tax Credit (CICo)

Since 2023, a company contracting with a research and knowledge dissemination organization is eligible for a CICo. The tax credit varies between 40 percent and 50 percent of the expenditure invoiced according to the size of the company.

Eligible activities and expenditure

This incentive is applicable to industrial, commercial, or agricultural enterprises, which conclude a collaboration contract between January 1, 2022 and December 31, 2025 with private or public bodies carrying out fundamental research, industrial research, or experimental development.

Eligible requirements include:

- Pursuing a commonly defined objective based on a division of labor
- Sharing financial, technological, scientific, and other risks
- Sharing the results. A collaboration is said to be effective when the research and knowledge dissemination organization bears at least 10 percent of the eligible costs and has the right to publish the results of its own research.

Eligible expenditure includes mainly staff and equipment expenses.

Registration/Claim process

A CICO form must be filed together with the CIT returns no later than the fifteenth of the fourth month following the company's financial year-end. For financial years ending on December 31, the deadline is set to May 15. If this deadline is not met, the company is allowed to claim the CICO until December 31 of the second year following the missed deadline.

Green Industry Tax Credit (C3IV)

The C3IV, which aims to accelerate the green transition and decarbonization of industry, was implemented to support investments in green industries. Its rate is commonly 20 percent, increased to 30 percent for mid-sized companies and 40 percent for SMEs (according to EU law definition).

Eligible activities and expenditure

C3IV is a tax incentive designed for investments in the green industry for production of core elements or final products related to the energy transition in the following key sectors: solar panels, batteries, wind power, and heat pumps.

The expenditure that can benefit from the C3IV includes:

- Tangible assets such as buildings, facilities, equipment, machinery, and lands required for the running of the project, provided that it is acquired from a third-party unrelated to the company benefiting from the C3IV
- Intangible assets: patents, licenses, know-how, and other intellectual property rights, subjected to certain conditions.

Registration/Claim process

To benefit from the C3IV, companies must obtain an accreditation, delivered by the French Authorities (Ministry of Research and ADEME) on the project's eligibility.

The C3IV tax credit is declared along with the annual CIT returns and is subject to a refund if exceeding the CIT due.

IP Box

The new French IP box regime was introduced in 2019 under Article 238 of the French tax code. The key changes compared to the previous favorable IP tax regime consist (i) the eligibility of software and (ii) the computation of a net income and nexus ratio to determine the portion of the company's result eligible to the reduced CIT rate.

This tax regime allows French taxpayers, under conditions, to benefit from a reduced CIT rate of 10 percent on the net IP income instead of the French standard CIT rate.

Eligible assets and income

The IP Box regime applies to income derived from the licensing, sublicensing, or sale of the following main eligible industrial properties: patents, "copyrighted" software, plant variety rights, etc. that have given rise to R&D expenses.

The regime is available for IP assets, the purpose of which is not to be bought and sold on a regular basis by the company.

Eligible income is mainly (i) licensing of eligible assets, (ii) sub-licensing of eligible assets, (iii) sale of eligible assets (to non-related entities). Where agreements involve both eligible and non-eligible assets/income, French taxpayers must determine the portion of the price that can be considered as eligible to the IP Box regime.

Registration/Claim process

The application for the IP box regime is optional. The election made by a company to benefit from this regime constitutes a management decision. It is materialized by the filing of a specific appendix attached to the standard CIT returns.

Young Innovation Companies (JEI/JEU/JEC)

Headline rate

A new company performing R&D activities can obtain the status of a young innovative company (JEI), young university company (JEU), or young growth company (JEC) in order to benefit from tax and social security exemptions including CIT (if created before January 1, 2024), social security contributions on R&D employees, and various other business and property taxes.

Eligibility requirements and expenditure

To obtain the status, the company must meet the following conditions (specific conditions may apply depending on the incentive regime JEI, JEU, or JEC):

- Be an SME according to EU law definition.
- Be of eight years of existence or less (the company definitively loses JEI status the year of its eighth anniversary, eleventh if created before January 1, 2023).
- Incur R&D expenditure representing at least 20 percent of costs per annum (was 15 percent until December 31, 2024).

- Have a capital held for at least 50 percent by the following people or entities: physical person, other young companies owned at least 50 percent by individuals, association or foundation recognized as being of public utility of a scientific nature, or public research and teaching establishment or one of its subsidiaries that is an investment company.
- Carry out new activity that is not a continuity of a previous company, merger, etc.

Registration/Claim process

The application for the YIC regime is optional. The election made by a company to benefit from this regime constitutes a management decision. It is materialized in the standard CIT returns.

It is strongly recommended to file a ruling at least three months prior to benefiting from the scheme in order to obtain confirmation from the tax authorities that the company is eligible to the regime.

Grants and subsidies

France offers a variety of R&D grants at regional, national, and European levels. Companies can access substantial funding that supports innovation and development across various sectors. The amount of funding available varies significantly, depending on the specific grant program and the project's scope, with some grants covering up to 80 percent of eligible costs.

Eligibility requirements and expenditure

Companies applying for R&D grants and incentives in France should engage in activities related to innovation, which enhance international competitiveness, create jobs, and contribute to industrial growth. Projects that aim to develop cutting-edge technologies, create jobs in high-tech and emerging industries, and/or promote industrial modernization are particularly valued.

The available type of grants varies depending on the programs and evaluation criteria including project's innovation potential, feasibility, and expected impact. All companies can benefit from grants although some grant desks are specifically tailored to SMEs and often cover a higher proportion of the project's costs.

Forming a consortium, which includes multiple partners such as universities, research institutions, and other companies, can enhance the chances of obtaining grants, especially for large-scale projects.

France offers both occasional calls for proposals with specific deadlines and long-term grants available on a rolling basis.

Some grants require companies to demonstrate financial stability or co-funding capabilities to ensure they can sustain the project financially. Additionally, regional grants may be available for companies in specific areas along with sector-specific grants targeting industries such as biotechnology, information technology, or renewable energy.

Registration/Claim process

R&D grants in France are submitted through online desk portals. Successful applicants are notified and often need to provide detailed progress reports along with final outcomes to obtain full grant release.

Germany

Introduction

On January 1, 2020, the German Research Tax Allowance Act (GRATA) law came into force, introduced by former chancellor Angela Merkel, former minister for finance (now, chancellor) Olaf Scholz, and President Frank Walter Steinmeier.

The German Research Tax Allowance (GRTA) is a flexible instrument to fund R&D activities that are equally available for all enterprises irrespective of their size and purpose.

According to the new German Growth Opportunities Act (announced on the March 28, 2024), the German Research Tax Allowance (GRTA) is at maximum:

- Twenty-five percent of the GRTA assessment basis (EUR10 million) equaling EUR2,500,000.00 for large companies
- Thirty-five percent of the GRTA assessment basis (EUR10 million) equaling EUR3,500,000.00 for SMEs.

Besides the new tax incentive scheme, there are several funding programs for R&D on regional, federal, or European level in Germany.

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Overview of R&D incentives

Eligibility for the research allowance

Enterprises in Germany and enterprises abroad are equally eligible to the R&D tax incentive provided that they are subject to tax in Germany and not tax exempt, that is, taxpayers subject to resident and nonresident taxation are eligible to the GRTAA. The GRTA is technically settled in an assessment procedure and can be reimbursed as a tax credit or refund.

As stated above the allowance is equally available to all enterprises irrespective of their size, their purpose, and their legal form.

Cross-enterprise research cooperations are also incentivized. Cooperations with at least one enterprise that is independent of the enterprise entitled to the allowance, with one or several research facilities or facilities for the dissemination of knowledge (such as universities or research institutions), are also possible.

For state aid reasons (European Commission Regulation “General Block Exemption Regulation” [GBER]), companies in difficulty are excluded from benefiting from the R&D tax incentive.

Contract research, too, is tax privileged insofar as the contractor is resident in an EU state or EEA state.

Tax-privileged R&D projects

The funding is limited to certain R&D activities in the areas of:

- Basic research
- Industrial research, and
- Experimental development.

The definition and assessment of the eligible R&D areas follow the criteria set out in the General Block Exemption Regulation (GBER)/Frascati Manual.

According to the Frascati Manual (480 pages), R&D engagements need to fulfill the following five criteria:

- Novel
- Uncertain
- Systematic
- Creative
- Transferable.



Registration/Claim process

The GRTAA authority, Bescheinigungsstelle (BSFZ), which is an authority outside the tax administration, decides if an engagement is considered an R&D project/activity or not and if it should be incentivized.

In this context, it is to be verified whether or not the R&D projects carried out fulfill the R&D criteria listed above and if they are, in fact, basic research, industrial research, or experimental development or whether the activities go beyond that.

On the basis of this certificate of the BSFZ, an application for the research allowance can be filed with the local tax office at the end of the financial year. The eligible R&D projects and expenses must be specified in the application. The research allowance will not be directly paid to the eligible entity but rather credited towards income tax or CIT. Only insofar as the allowance is higher than the assessed tax (e.g., in the case of losses), it is paid out.

Eligible expenditure and research allowance

The tax incentive for research takes the form of an (research) allowance.

The GRTA amounts to 25 percent (35 percent in the case of small and mid-sized enterprises (SMEs)) of the assessment basis.

The assessment basis for the GRTA resulting therefrom was capped at EUR2 million (January 2020–June 2020), EUR4 million (June 2020–March 2024) and has been raised to EUR10 million in March 2024.

Considering the cap of the assessment basis, the maximum allowance was EUR0.5 million from January 2020 to June 2020, EUR1 million from June 2020 to March 2024, and EUR2,500,000 (EUR3,500,000 for SMEs) per financial year since April 2024.

This cap is applicable to affiliated enterprises altogether as a group.

In the case of cooperation projects of nonaffiliated enterprises, however, the maximum amount is applicable to each eligible entity separately.

Eligible expenditures that can be included in the assessment basis are:

- Internal personal cost
- External contract research cost, and
- Depreciation and amortization for investments, which were purchased after March 28, 2024 and used for the R&D activities.

The eligible expenditure results from the wages (which need to be subject to German wage tax) that must be kept for each employee.

Tax-exempt compensation or tax-exempt benefits in kind will not be included. Incidental wage costs incurred by the employer to secure the employee's future (e.g., pension insurance and unemployment insurance, as well as healthcare and long-term care insurance) increase the eligible expenditure for personnel.

Only wages and salaries for employees, to the extent that they perform such incentivized R&D activities, are taken into consideration; personnel expenditure for cleaning staff, administrative staff, or managers who do not carry out research themselves, even though they are actively involved in an R&D project, are not considered. Eligible enterprises **must keep a verifiable documentation** of the employees in charge of R&D activities within the R&D project (in particular, recording the proportionate hours in the project per employee), which benefits from the tax incentive. In the case of contract research, the eligible expenditure amounts to 70 percent of the remuneration paid by the contracting entity to the contractor since April 2024 and amounts to 60 percent from January 2020 to March 2024.

Moreover, for state aid reasons, a cap of EUR15 million for R&D projects will be applicable to any granted state aid (including research allowance) per undertaking.

Period of application

The GRITA is intended as an incentive to make additional investments in R&D activities. Thus, the allowance can only be claimed for R&D projects **starting** or being commissioned **after January 1, 2020**.

Until the end of 2024, companies (with fiscal year equals calendar year) can still apply for funding for R&D projects that started on the January 1, 2020.

This time, limit is dependent on EU State Aid Law. The period of application shall be extended by the period of time for which the European Commission declares the period of validity of the GBER, applicable to the research allowance. This shall be promulgated in the Federal Law Gazette.

Other grants and incentives

Besides the new tax incentive scheme, there are several funding programs for R&D on regional, federal, or European level in Germany.

The regional funding programs mainly focus on SMEs developing innovative key technologies. Federal programs are open to a wide range of eligible industries. Funding programs at the EU level, such as the European Regional Development Fund, also provide funding for R&D activities performed in Germany. Those programs are highly attractive for multinational projects or companies due to their focus on collaboration projects—including partners from different member states of the EU. In order to provide an overview of existing funding programs, the German Federal Ministry of Industry and Energy (Bundesministerium für Wirtschaft und Energie) offers access to a database including all available funding programs.

In principle, federal and local funding programs require the funded R&D activities to be conducted within Germany. Thus, the funding applicant must comply with the following preconditions:

- Funding recipient must have its own legal entity in Germany
- R&D activities must be conducted in Germany
- R&D costs must be incurred within Germany
- Results must be exploited in Germany (for the main part).

R&D incentives are awarded either in nonrepayable cash grants or R&D loans on a per-project basis. A legal claim for R&D funding does not exist. In general, the funding quota ranges from 25 percent to 75 percent of the qualified R&D expenditures depending on the funding program, the size of the company, the research category, European state aid law, and whether or not the project is conducted in cooperation with research institutes. After the acquisition of the cash, it is essential to comply with the funding regulations and reporting requirements. Therefore, it is highly recommended to establish an internal administrative system in order to properly manage the documentation and reporting process right from the beginning.

Greece

Introduction

In an effort to promote companies to perform their R&D activities in Greece, a special provision was included in the Greek Income Tax Code (Law 4172/2013 or ITC) introducing increased deductibility of expenditures realized for scientific and technological research, including the tax depreciation of equipment and instruments used for the purpose of conducting scientific and technological research (Article 22A).

Moreover, another special provision was introduced in the ITC in 2018 (article 71A), providing tax incentives to companies developing and exploiting internationally recognized patents for their products/services.

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R&D activities (Article 22A)

According to domestic legislation, an enterprise may deduct up to 200 percent of the costs associated with R&D projects (scientific and technological research expenditure), including the tax depreciation of equipment and instruments used for scientific and technological research, within the year that these costs were realized.

Definition of R&D

The qualification criteria for scientific and technological research activities are periodically defined by Ministerial Decisions. The most recent Ministerial Decision (KYA 79230/15-07-2021) states that scientific and technological research activities correspond to creativity work that is performed systematically in order to increase the stock of knowledge and to use such stock of knowledge for inventing new applications. The scientific and technological research covers three types of activities: basic research, applied research, and experimental development.

The basic criterion that distinguishes scientific and technological research from other similar scientific, technological, and industrial activities is the existence (in research activities) of a significant element of novelty (and the resolution of scientific or technical uncertainties). Qualifying research activities mainly include:

- The designing, production of prototypes, and respective tests
- The construction and operation of pilot works that aim to acquire experience and produce engineering studies and other data that will be used for new product specifications
- Industrial design that is required for the implementation of scientific and/or technological research
- Industrial engineering, on condition that its successful completion depends on further research
- Development of pilot and innovative software programs, on condition that they contribute to actual scientific and/or technological progress and that they aim to contribute to the systematic resolution of some scientific and/or technological uncertainty. On what concerns software development, the ministerial decision mentions explicitly which activities are included and which are excluded.
- Clinical trials for new drugs, vaccines, treatments, etc.



Eligibility requirements

R&D expenses qualifying for the tax incentive of increased deductibility are defined in more detail in the respective ministerial decision. In summary, qualifying expenses strictly include the following and no other expenses will qualify:

- Buildings/premises:** depreciation of expenses for the purchase, construction or repair, maintenance, and renovation of buildings
- Equipment:** depreciation of expenses for the purchase or financial leasing of laboratory equipment and technologies
- Intangible assets:** depreciation of expenses for the purchase of intangible assets and of licenses for specialized scientific software programs necessary for the research (standard software for general purposes is not included)
- Operational expenses:** such as rents or operational leases, electricity, telecommunication, water utilities, etc.
- Salaries:** of relevant employees and fees to freelancers involved in the scientific and technological research project
- Travel expenses:** directly connected to an R&D project that is being executed
- Consumables**
- Patents:** purchase or holding of patents from/in Greece or abroad
- Connectivity expenses:** for connecting with electronic libraries, data networks, etc.
- Pharmaceutical products:** expenses for the purchase of intangible assets and know-how and approval fees and patent fees for products under development and production in Greece of R&D projects submitted for certification by pharmaceutical companies, provided that they were incurred during the relevant financial year

- k. **Subcontractors:** expenses for services provided by third parties (labs, public research centers/ organizations and universities, etc.) cannot exceed 70 percent of the total budget for the research project.

All qualifying expenses are calculated on the basis of actual/realized cost as evidenced by settled invoices or accounting records and on a simplified cost basis for personnel expenses (payroll cost as per the employment agreement).

Any kind of remuneration paid to shareholders, owners, CEOs, chairman and member of the board, partners, administrators, general managers, and persons affiliated to them is not considered qualifying expenditure.

R&D activities must be linked to projects exclusively self-funded by the enterprise. Projects funded by any other national, European, or international body are excluded.

R&D expenses should be recorded in separate accounts in the enterprise's accounting books and all relevant accounting records, decisions from competent bodies (minutes of the board of directors, of the general assembly, etc.) and the approval granted by the competent government body acknowledging eligibility for the tax relief should be maintained by the enterprise during the statutory limitation period stipulated by the provisions of Greek tax legislation.

R&D tax relief

The R&D tax incentive (i.e., deductibility increased by 100 percent of R&D costs and of tax depreciation of equipment related to R&D) is applicable on any type of legal entity and individual entrepreneur regardless of whether they maintain double-entry or single-entry accounting books, assuming they meet the required conditions and submit the necessary application and documentation as per the guidelines introduced by the Ministerial Decisions.

Registration/Claim process

The General Secretariat for Research and Technology (GSRT) verifies the eligibility of R&D expenses based on an application with supportive documentation, as indicated by the relevant ministerial decision, uploaded to the GSRT's website by the enterprise.

Quality and financial assessment of the submitted proposals is performed by experts appointed by the GSRT.

Following completion of the assessment procedure and issuance of relevant report by the experts, the General Secretary of Research and Technology (GSRT) issues an approval certificate, which is forwarded to the beneficiary enterprise and notified to the competent tax authorities.

Offset of clawback with R&D costs of pharmaceutical companies (Article 20, Law 4633/2019)

According to Article 20 of Law 4633/2019, pharmaceutical companies may offset clawback amounts against R&D expenses incurred (including clinical trial expenditure) for specifically targeted and reasonable R&D activities. Such clawback amounts may also be offset against expenditure related to investment plans for the development of products, services, or production lines. The benefit arising from setting off clawback against R&D expenses is allocated for income tax purposes equally over a period of five years starting from the financial year that the benefit arises (Article 21, Paragraph 7 of Law 4172/2013).

Eligible R&D costs to be offset

According to a joint Ministerial Decision, the eligible R&D costs that can be offset against clawback amounts, are the following:

- A. Fees paid to staff engaged in the development of R&D projects; we note that the eligible expenditure for technical staff and other supporting personnel may not exceed 20 percent of the total payroll cost incurred for the R&D project's team
- B. Depreciation of the expenditure for the acquisition or leasing of mechanical equipment and laboratory instruments, semi-industrial (demonstration) testing facilities, as well as other equipment related to R&D activities. The expenditure in this category may include costs incurred for the transportation and installation of said equipment as well as costs for training the staff on how to use it.
- C. Depreciation of the expenditure for the acquisition, construction, repair, maintenance, or renovation of buildings related to R&D activities
- D. Fees paid to subcontractors for the assignment of specific parts of R&D projects; such expenses cannot exceed 70 percent of the total cost of the project (this limit does not apply to expenses paid to public entities)
- E. Expenses incurred for the purchase of intangible assets, licenses, computer programs, and patent fees for the formulation of R&D projects under development and production in Greece

- F. Expenses for consumables and other expenses crucial to the R&D projects (such as insurance for clinical trials).

Registration/Claim process

The GSRI issues an invitation addressed to pharmaceutical companies to submit their applications according to the relevant ministerial decision.

The whole process of application, evaluation, certification, and approval will be carried out through the State Aid Information System (PSKE).

The deadline for the submission of the relevant application by the eligible companies is mentioned in the GSRI's invitation.

The procedure for the evaluation of the submitted requests involves two phases: During the first phase, the eligibility and completeness of the request is examined (eligibility requirements should be verified by certified accountants/certified auditors); during the second phase, the GSRI proceeds with the evaluation of the request on the basis of various criteria.

Following completion of the evaluation procedure, the GSRI issues a Decision approving or rejecting the request.

Patents (Article 71A)

According to domestic legislation, profits of an enterprise arising from the exploitation of an internationally recognized patent developed and used by this enterprise are exempted from CIT for three consecutive years, starting from the year during which revenues were first realized. The exemption is also granted for profits arising from the sale of products, for the production of which the patent was used, even when these products are produced in third-party facilities.

The exemption is granted on condition that there is a connection with the R&D costs incurred by the company to develop the patent.

Definition of a patent and eligibility requirements

The competent bodies for certifying an internationally recognized patent and the terms and conditions applicable for this beneficial treatment are provided by Ministerial Decision KYA. 79628 EE 2022.

Tax exemption

The amount of tax exemption is calculated according to the below formula:

$$\frac{\text{R\&D costs eligible for exemption}}{\text{Total R\&D expenses}} \times \text{Profits arising from the exploitation of the pattern}$$

The R&D costs eligible for exemption in this formula may be increased by 30 percent, as long as they don't exceed the overall R&D expenses of the company.

The exempted profits are recorded in a special reserve account and will be subject to CIT when the reserve is distributed or capitalized (according to the general provisions of the ITC).

Registration/Claim process

The enterprise shall file an application with the General Secretariat for Industry (GSI), which, in turn, will forward the application to the Hellenic Industrial Property Organization (HIPO). HIPO assesses the application on the basis of supporting documentation/certifications (e.g., evidencing that the patent was utilized in the year during which revenues were first realized from the sale of such products/provision of such services, the internationally recognized patent has been developed by the same enterprise, etc.).

Payment of a fee to HIPO is required (the level of which is decided by HIPO's BoD) in order for the application to be assessed; otherwise, the application will not be acceptable. This fee is not refunded if the application is not successful.

Following completion of the assessment procedure, HIPO issues a report suggesting the approval or rejection of the application and forwards the report to GSI. Then, the Ministry of Development and Investments issues its approval or rejection decision, which is forwarded to the enterprise and notified to the competent tax authorities.

Hong Kong (SAR), China

Introduction

To encourage greater R&D investment in Hong Kong and promote the city as a regional R&D hub, the Hong Kong government has introduced enhanced tax deductions for qualifying R&D expenditures. The Inland Revenue (Amendment) (No. 7) Ordinance 2018 sets out the legislative detail relating to the R&D enhanced tax deduction regime. It will apply to expenditures from April 1, 2018.

The Inland Revenue (Amendment) (Tax Concessions for Intellectual Property Income) Ordinance 2024 (the Ordinance) was gazetted on July 5, 2024, which introduces a patent box tax incentive in Hong Kong that offers a 5 percent concessionary tax rate for Hong Kong-sourced taxable (i.e., non-capital) profits derived from the use or sale of eligible intellectual properties, and applies retrospectively to years of assessment beginning on or after April 1, 2023.

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Overview of R&D incentives

Super deduction for qualifying R&D expenditure

A 300 percent super deduction (for the first HKD2 million) and 200 percent super deduction (for amounts exceeding HKD2 million) is available for qualifying expenditure.

Where activities do not fall under qualifying expenditure, they may still be eligible for the 100 percent immediate deduction.

Definition of R&D

The term “research and development” means:

- Any activities in the field of natural or applied sciences for the extension of knowledge
- Any systematic, investigative, or experimental activities carried on for the purposes of any feasibility study or in relation to any market, business, or management research
- Any original and planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding
- The application of any research findings or other knowledge to a plan or design for the production or introduction of new or substantially improved materials, devices, products, processes, systems, or services prior to the commencement of their commercial production or use.

Please note, the above criteria represent qualifying R&D activities for the enhanced deduction. The scope of relevant expenditure for R&D is limited to:

- Direct employee costs
- Direct expenses
- Payments to Hong Kong–designated local research institutions.

R&D tax relief

Super deduction (persons carrying on a trade, profession, or business in Hong Kong)

Qualified entities are eligible for a 300 percent super deduction (for the first HKD2 million) and 200 percent super deduction (for amounts exceeding HKD2 million) for qualifying expenditure. Where activities do not fall into the below criteria, they may still be eligible for the 100 percent immediate deduction.

Eligibility requirements

Super deduction (persons carrying on a trade, profession, or business in Hong Kong)

- The expenditure must be incurred in carrying out qualifying R&D activity
- R&D activities are to be carried out in Hong Kong
- Any rights of the R&D need to be vested in Hong Kong
- The R&D activity is not undertaken for another person
- The R&D expenditure will not be directly/indirectly met by government or other person.

Registration/Claim process

- Supplementary Form S3 to the Profits Tax Return should be completed (applicable to Profits Tax returns issued on or after April 1, 2019).
- Taxpayers could apply for an advance ruling in respect to the R&D tax relief.

Other relevant information

- Definition of a person
 - A “person” includes a corporation; partnership; trustee, whether incorporated or unincorporated; or body of persons.
- Definition of a designated local research institute
 - An institute, association, organization, or corporation located in Hong Kong designated by the Commissioner of Innovation and Technology.
- Clawback of R&D deductions
 - Proceeds of the sale of plant and machinery and of rights generated from R&D activities should be taxable trading receipts to the extent that they do not exceed the R&D deduction.
- Anti-avoidance provisions
 - A deduction is disallowed for R&D expenses where the expenditure is incurred with the principal purpose being to enable a person to obtain a tax deduction.

Patent box regime

Overview

Upon an irrevocable election by a taxpayer, a 5 percent concessionary tax rate will apply to a portion of the taxpayer’s Hong Kong–sourced taxable (i.e., non-capital in nature) profits derived from use or sale of an eligible intellectual property (IP), and applies retrospectively to years of assessment beginning on or after April 1, 2023.

The tax concession

- To enjoy the tax concession, a taxpayer must meet the following requirements:
 - (i) The taxpayer is an eligible person.
 - (ii) The taxpayer derives eligible IP income from an eligible IP.
 - (iii) An election is made in respect to the eligible IP.
- The concessionary portion of assessable profits will be computed based on the R&D fraction.

Eligible person

An eligible person is a person who is entitled to derive eligible IP income from an eligible IP.

Eligible IPs

An eligible IP is defined to mean:

- (i) An eligible patent (i.e., a patent granted, or a patent application filed, in Hong Kong or by any overseas patent office)
- (ii) An eligible plant variety right (i.e., right granted or an application filed under the law of Hong Kong or any place outside Hong Kong in respect to a cultivated plant variety)
- (iii) A copyrighted software under the Copyright Ordinance in Hong Kong or the law of any place outside Hong Kong.

Eligible IP income

Eligible IP income is:

- (i) Income derived from an eligible IP in respect to (1) the exhibition or use of or a right to exhibit or use the IP or (2) the imparting of the knowledge connected with the use of the IP
- (ii) Income arising from the sale of an eligible IP
- (iii) The portion of income from a sale of a product or service, determined on a just and reasonable basis, that is attributable to the value of an eligible IP
- (iv) Any insurance, damages, or compensation amount derived in relation to an eligible IP.

The R&D fraction and concessionary portion of assessable profits

- The concessionary portion of assessable profits in respect to an eligible IP to which the 5 percent tax rate applies is computed based on the R&D fraction, i.e., $130 \text{ percent} \times \text{eligible R\&D expenditures over total expenditures incurred for the eligible IP in question}$
- Broadly, only R&D expenditures directly connected to the eligible IP would be considered eligible, whether incurred in or outside Hong Kong.

Other grants and incentives

R&D Cash Rebate Scheme

A rebate of 40 percent of eligible R&D expenditure is available for local companies working on R&D projects funded by the Innovation and Technology Fund or conducted in partnership with designated local public research institutes.

Enterprise Support Scheme (ESS)

Eligible companies can apply for ESS, which provides funding support of up to HKD10 million per approved project to conduct in-house R&D work with a view to encouraging the Hong Kong private sector to invest in R&D.

Incubation programs

Hong Kong Science & Technology Parks Corporation offers incubation programs to start-up tenants at the Science Park, providing R&D support, lab facilities, and funding support.

Innovation and Technology Fund for Better Living (FBL)

Hong Kong–developed projects involving innovative application of technologies benefiting the public at large or specific groups may be eligible to receive a grant up to 90 percent of the total eligible costs of the project capped at HKD5 million.

Hungary

Introduction

Hungary has favorable tax incentive regimes relating to R&D activities, which is in line with the government's current intention to induce and enhance the R&D activity of Hungarian enterprises as well as multinationals with Hungarian presence.

Government grants and EU tenders are also available as well as a preferential treatment of royalty income and tax-exempt sale of intangibles embodying rights to royalty income.

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Overview of R&D incentives

Double tax deduction for expenditure on qualifying R&D activities. R&D capital allowances are also available to certain qualifying investment projects.

Definition of R&D

R&D is defined as basic research, applied research, and experimental research in line with the Commission Regulation (EC) No 800/2008.

- *Basic research*: Experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view
- *Applied research*: Original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily toward a specific, practical aim, or objective.
- *Experimental development*: Systematic work, drawing on knowledge gained from research and practical experience and producing additional knowledge, which is directed at producing new products or processes or at improving existing products or processes

R&D tax relief

Double deduction

If the company performs qualifying R&D activities, it may benefit from a double tax deduction for the expenditure incurred.

There is no upper cap of the double deduction, i.e., even negative tax base can be generated. In general, tax loss can be carried forward for five tax years.

R&D double deductions can also be claimed when the Hungarian entity is solely financing the R&D activity (i.e., it has no assets or employees involved in the R&D activity).

Hungarian entities are also entitled for the double deduction if they only provides R&D services, and the legal title of the IP developed by the company is automatically acquired by the party ordering the service.

The tax base decreasing item may be—wholly or partly—transferred between related or, under certain circumstances, even unrelated parties, if certain formal requirements are met.



R&D tax allowance

R&D tax allowances may also be available for investment projects serving R&D activities with a present value of at least HUF100 million.

The tax allowance can be utilized in the tax year following the capitalization, or, up to the taxpayer's discretion, in the tax year of the capitalization and in the 12 subsequent tax years, but not later than the 16 tax years from the tax year of the submission of the required notification/application form.

The maximum tax allowance that can be enforced in a given tax year is 80 percent of the annual computed corporate tax.

Other grants and incentives

- Direct costs of the R&D activity are deductible for local business tax and innovation contribution purposes.
- Reductions to local business tax payments in certain jurisdictions up to an amount of 10 percent of the direct cost of the R&D activity incurred in a given tax year
- Social tax allowances for the employment of researchers and developers are involved in R&D activities.
- Taxpayers subject to pharmaceutical taxes (clawback taxes) can reduce their payable taxes where they undertake R&D activities related to the healthcare sector.
- Various industry-specific grants and subsidies

Preferential treatment of royalty income

Preferential tax treatment of royalty income may apply to the utilization (licensing), sale, or in-kind contribution of intangible property (IP) created in the course of R&D activities.

- Fifty percent of the net royalty income from qualifying IP can be exempted for CIT purposes. Such an exemption is capped at 50 percent of the pre-tax profit

- Moreover, 100 percent of the gain realized on the sale or in-kind contribution of an IP asset may be exempt from CIT, provided that the acquisition or development of such asset has been reported to the Tax Authority within 60 days and a holding period of at least one year has elapsed. In case of such “Reported IP,” on the other hand, any loss on the disposal of such Reported IP asset qualifies as non-deductible from CIT point of view.
- Furthermore, the profit from the sale or in-kind contribution of a qualifying (not reported) IP assets may also be exempted for CIT purposes, provided that the amount of the profit has been transferred from the profit reserve to the tied-up reserve by the end of the tax year. Such reserve shall be released within five tax years for the acquisition of new Reported IP assets.
- We note that the so-called Nexus approach (Action 5 of the BEPS initiatives) has been implemented in the Hungarian IP regime; therefore, further limitations may arise in case of the above allowances
- Finally, net sales revenue deriving from royalty is non-assessable for local business tax and innovation contribution purposes.

Iceland

Introduction

In 2009, the Icelandic government introduced a new legislation that is aimed at improving the competitive environment of R&D companies. Enterprises that carry out R&D projects can apply to be certified by The Icelandic Centre for Research (Rannís) in order to be eligible for a Tax Credit Scheme. The tax credit is 20 percent of the expenses incurred in relation to an approved R&D project up to a defined threshold.

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Overview of R&D incentives

Definition of R&D

R&D is defined as a limited and targeted project aimed at gaining new knowledge or skills that are an advancement for the company for the development of a new or better product, service, or manufacturing method.

Operations that are a part of company's regular operations cannot be part of development. This applies to routine or periodic changes made to existing products, production lines, manufacturing process, services, and other operations in progress, even if those changes may represent improvements. Marketing and sales costs are not eligible for the tax credit.

Eligibility requirements

The R&D Tax Credit Scheme is only available for legal entities that are taxable in Iceland under Icelandic domestic law and are engaged in research or development. Therefore, the tax deductions are available to all industries and all types of companies, excluding universities and public institutions.

Rannís determines whether a project is approved or not. The condition for a project to be approved is that it needs to be considered a research or development project according to Act no. 152/2009 on support for innovation companies, and:

- The concept of value-added product/service and business plan is well defined
- It can be demonstrated that at least ISK1 million will be spent on R&D over a 12-month period
- The employees working on the project need to have training, education, or experience in the field in which the idea of a value-added product or service is based.

Registration/Claim process

For a company to benefit from the Tax Credit Scheme, it must send an application to Rannís no later than October 1 each year for new projects.

The application must be submitted in the form decided by Rannís, and it must include a detailed description of the project, together with a project and cost estimate.

Application for extension of a project from the previous year is April 1 each year.



All costs in relation to the approved project need to be distinguished in the books of the enterprise in order to be clearly identified from other costs of the enterprise. The cost needs to meet the criteria to be considered deductible expense as defined in the Income Tax Act no. 90/2003 as well as Regulation no. 483/1994 on deductible costs from business activities and independent operations. Regulation no. 758/2011 on support of innovative companies further defines which costs are not eligible as R&D costs.

The R&D Tax Credit for an approved project is claimed in the CIT return by detailing the costs incurred in relation to each approved project; other public grants need to be disclosed as the total public aid cannot exceed the EEA thresholds for state aid.

R&D tax credit

The R&D Tax Credit is 20 percent of the cost incurred in relation to an approved R&D project. The tax credit can lower the income tax to be paid. If the enterprise is not in a tax-paying position, then the R&D Tax Credit is paid out. The R&D Tax Credit is not dependent on whether the enterprise generates any revenues or profits.

The maximum annual expenses eligible for the R&D Tax Credit is ISK600 million resulting in maximum tax credit amounting to **ISK120 million**. When the R&D projects require contracted services from third parties, then the maximum annual expenses increases to ISK900 million, resulting in maximum R&D Tax Credit amounting to **ISK180 million** (see further the temporary provisions). The amounts represent the total tax credit obtainable for each entity, but the total R&D expenses can relate to numerous R&D projects.

The total amount of government aid, in addition to the R&D Tax Credit Scheme, must be in line with Iceland's commitment according to the EEA agreement and ESAs state aid guidelines. The limit depends on the size of the entity and of the type of project, and whether it is a single-entity project or a cooperation of more than one entity.

Small entity: The combined grant may reach a maximum of 70 percent of the total amount of eligible expenses for a research project or 80 percent in the case of a collaborative project. A total grant for a development project can reach a maximum of 45 percent of the total eligible expenses or 60 percent in the case of a collaborative project.

Midsized entity: The combined grant may reach a maximum of 60 percent of the total amount of eligible expenses for a research project or 75 percent in the case of a collaborative project. A total grant for a development project can reach a maximum of 35 percent of the total amount of eligible expenses or 50 percent in the case of a collaborative project.

Large entity: The combined grant may reach a maximum of 50 percent of the total eligible expenses of a research project or 65 percent in the case of a collaborative project, in the case of cross-border cooperation projects in the EEA, or with at least one small or midsized business. A total amount of funding for a development project can be a maximum of 25 percent of the total eligible expenses or 40 percent in the case of a collaborative project, in the case of cross-border cooperation projects in the EEA, or with at least one small or midsized business.

Temporary provisions for the R&D Tax Credit Scheme

Due to the economic impact of the COVID-19 pandemic, temporary provisions have been put in place amending Act no. 152/2009 on support for innovation companies.

R&D companies are entitled to special deductions (Tax Credit) from the imposed income tax in assessment years 2021 and 2022 (income years 2020 and 2021), extended for **assessment years 2023, 2024, and 2025** (income years 2022, 2023, and 2024), amounting to 35 percent of the eligible cost incurred in relation to an approved R&D project in the case of **SMEs** and for large companies, **25 percent** of the eligible operating expenses within the meaning of the Point 1 of paragraph 1 of Article 31 of the Income Tax Act no. 90/2003.

Maximum annual expenses eligible for the tax credit in income years **2023–2024 amounts to ISK1.1 million**. Of that amount, up to ISK200 million may be derived from contracted R&D services from **third parties**.

Other grants and incentives

In addition to the R&D Tax Credit Scheme, there are various non-repayable grants available to support innovation companies with their R&D projects through the Technological Development Fund, which is also handled by Rannís. The main grants are Fræ (up to ISK2 million), Vöxtur (up to ISK50 million), Sprettur (up to ISK70 million), Patent grant (up to ISK600,000 or ISK1.4 million depending on patent process and expenses), and Marketing grant (up to ISK10 million).

The grants can be obtained for projects that last up to two years, and there are various minimum contribution amounts to be provided by the company itself for the project. If a grant is obtained, it can affect the amount of the Tax Credit Scheme, as the maximum government aid is limited by the EEA rules as previously described.

Tax Credit Scheme, as the maximum government aid is limited by the EEA rules as previously described.

Foreign experts

Special rules apply to the taxation on remuneration to foreign experts who come to Iceland for work. The legislation, which came into effect January 1, 2017, stipulates that only 75 percent of the income is taxed for the first three years from the start of employment provided certain conditions are met and application approved.

India

Introduction

To encourage investments in R&D in India, the government of India has provided various incentives that are available to Indian or foreign-owned entities across sectors including, but not limited to, biotechnology, automobiles, computer hardware and software, pharmaceuticals, telecommunications, electronic equipment and chemicals.

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Overview of R&D incentives

In-house R&D

A tax deduction of 100 percent of the capital/revenue expenditure incurred by persons/entities that perform scientific research related to the business.

In-house R&D with Government of India approval

A tax deduction of 100 percent of the expenditure incurred on in-house R&D facility.

Contribution to Indian company for R&D

A tax deduction of 100 percent of the sum paid by persons/entities that outsource R&D to an eligible Indian company.

Contribution to notified institutions for R&D

A tax deduction of 100 percent of the sum paid to a scientific research association, university, college, national laboratory, Indian Institute of Technology (IIT), and notified institutions.

Tax benefits on R&D activities exported by unit set up in Special Economic Zones (SEZ)

Income tax benefits on R&D activities carried out in SEZ ranging between 100 percent and 50 percent of eligible profits depending upon the year of operations.

This deduction will be restricted to the unit that has received a letter of approval on or before March 31, 2020 and operations have commenced on or before September 30, 2020.

Patent box regime

Reduced tax rate of 10 percent on royalty income earned from patents developed and registered in India.

Definition of R&D

Scientific research means activities for extending knowledge in the field of natural or applied sciences including agriculture, animal husbandry, or fisheries.

Expenditure incurred on scientific research includes expenditure incurred for prosecution, or the provision of facilities for the prosecution, of scientific research but does not include expenditure incurred in the acquisition of rights in, or arising out of, scientific research.

Scientific research related to a business or class of business includes:

- Any scientific research that may lead to, or facilitate, an extension of that business or all businesses of that class.
- Any scientific research of a medical nature that has a special relation to the welfare of workers employed in that business or all businesses of that class.



Generally, R&D includes development of new technologies, design and engineering, process/product/design improvements, and developing new methods of analysis and testing; research for increased efficiency in use of resources such as capital equipment, materials, and energy; pollution control, effluent treatment, and recycling of waste products; or any other areas of research. However, market research, work and methods study, operations and management research, testing and analysis of routine nature for operation, process control, quality control, and maintenance of day-to-day production and of plant are not considered R&D activities.

In-house R&D – Tax deduction on capital/revenue expenditure *(Available to persons/entities that perform scientific research related to the business)*

R&D tax relief

Tax deduction on capital/revenue expenditure allowed in the same year when incurred.

The capital/revenue expenditure incurred within three years immediately preceding the commencement of business is allowed as a deduction in the first year of commencement of business.

Tax deduction is available even for companies that have opted for concessional tax rate of 22 percent¹ or 15 percent¹.

¹Under the Income-tax Act, 1961, a domestic company, subject to certain conditions, can avail a concessional corporate tax rate of (i) 22 percent for existing domestic companies; and (ii) 15 percent for new domestic companies incorporated on or after October 1, 2019, commencing manufacturing or production of any article or thing (subject to certain exclusions) on or before March 31, 2023.

Eligibility requirements

For revenue expenditure:

- Any revenue expenditure laid out or expended during the year on scientific research related to the business.
- Any revenue expenditure on scientific research related to the business laid out or expended within three years immediately preceding the commencement of the business on payment of any salary (excluding perquisites) to an employee engaged in such scientific research or on the purchase of materials used in such scientific research. Deduction is limited to the extent it is certified by the director general (Income Tax Exemptions) in concurrence with Department of Scientific and Industrial Research (DSIR).

For capital expenditure:

- Any capital expenditure (except expenditure incurred on the acquisition of land) incurred during the year on scientific research related to the business.
- Any capital expenditure (except expenditure incurred on the acquisition of land) on scientific research related to the business incurred within three years immediately preceding the commencement of the business.

In-house R&D with government of India approval – Tax deduction on capital/revenue expenditure incurred on in-house R&D facility *(Available to companies that are engaged in the business of biotechnology or in the business of manufacture or production of any article or thing other than a few restricted articles such as alcoholic beverages, and tobacco.)*

R&D tax relief

A tax deduction of 100 percent² from the assessment year beginning on or after April 1, 2021 (i.e., financial year commencing on or after April 1, 2020).

Expenditure that is eligible for aforesaid deduction will not be eligible for deduction under any other provisions of the Income-tax Act, 1961.

No tax deduction is allowed for companies opting for concessional tax rate of 22 percent¹ or 15 percent¹.

Eligibility requirements

Any expenditure incurred on scientific research (not being expenditure in the nature of cost of any land or building) on in-house R&D facility as approved by the DSIR.

The company shall be required to enter into an agreement with the DSIR for cooperation in such R&D facility and fulfill other prescribed conditions.

Registration/claim process

Application to be made for recognition of in-house R&D facility by DSIR.

Application to be made in prescribed form to DSIR for seeking approval for claim of deduction by recognized in-house R&D facility.

Prescribed annual compliances to be undertaken, namely maintenance of separate accounts for each in-house R&D facility and audit of such accounts for seeking approval of the R&D expenditure eligible for claim.

Contribution to Indian company for R&D – Tax deduction on expenditure on outsourcing of R&D

(Available to persons/entities that outsource R&D to an eligible Indian company)

R&D tax relief

A tax deduction of 100 percent³ of the amount paid to the eligible Indian company.

No tax deduction is allowed for companies opting for concessional tax rate of 22 percent¹ or 15 percent.¹

Eligibility requirements

Any sum paid to an approved scientific research company, registered in India, to be used by such company for scientific research.

The company's main objective should be scientific R&D, and it should be approved by the prescribed authority.

Registration/claim process

The Indian company should file an application in the prescribed form before the prescribed income tax authority for seeking approval. Any such approval shall be provided for a period not exceeding five years.

Entities that are already approved on or before April 1, 2021 should make an intimation within three months from April 1, 2021 to the prescribed income tax authority, and the approval granted before the intimation shall be valid for a period of five consecutive assessment years beginning with the assessment year commencing on or after April 1, 2022 (i.e., financial year commencing on or after April 1, 2021).

Prescribed annual compliances to be undertaken by the Indian company, namely maintenance of separate books of accounts, audit of such books of accounts, etc.

Furnish to the donor a certificate specifying the amount of donation within the timeframe prescribed.

²For the financial year commencing before April 1, 2020, weighted tax deduction at higher percentage is allowed.

³For the financial year commencing before April 1, 2017, tax deduction of 125 percent of the sum paid is allowed.

Contribution to notified institutions for R&D – Tax deduction for sums paid to a scientific research association, university, college, national laboratory, IIT, and notified institutions

R&D tax relief

A tax deduction of 100 percent⁴ of the sum paid (in case of criteria [i] and [ii] mentioned below) from the assessment year beginning on or after April 1, 2021 (i.e., financial year commencing on or after April 1, 2020).

A tax deduction of 100 percent⁵ of the sum paid (in case of criteria [iii] mentioned below).

No tax deduction allowed for companies opting for concessional tax rate of 22 percent or 15 percent.

Eligibility requirements

- i. Sums paid to research association, university, college, or other institutions to be used for scientific research. Such institutions should be approved and notified as such in *Official Gazette* by the central government.
- ii. Sums paid to a national laboratory, university, IIT, or a specified person with a specific direction to use the same for scientific research program approved by the head of the national laboratory, university, or IIT, as the case may be, and principal scientific adviser to the government of India in case of specified person.
- iii. Sums paid to a research association, university, college, or other institutions to be used for research in social science or statistical research. Such institutions should be approved and notified as such in *Official Gazette* by the central government.

Registration/claim process

With respect to eligibility requirements mentioned in criteria (i) and (iii) above:

- The research association, university, college, or other institution should make an application in the prescribed form before the prescribed income tax authority for seeking approval. Any such approval shall be provided for a period not exceeding five years.
- Entities that are already approved on or before April 1, 2021 should make an intimation within three months from April 1, 2021 to the prescribed income tax authority, and the approval granted before the intimation shall be valid for a period of five consecutive assessment years beginning with the assessment year commencing on or after April 1, 2022 (i.e., financial year commencing from April 1, 2021).

- Prescribed annual compliances to be undertaken by the research association, university, college, or other institution, namely, maintenance of separate books of accounts, audit of such books of accounts, etc.
- Furnish to the donor a certificate specifying the amount of donation within the timeframe prescribed.

With respect to eligibility requirements mentioned in criteria (ii) above:

- The person contributing any sum (sponsor) to the national laboratory, university, IIT, or a specified person shall file an application in the prescribed form before the prescribed authority (i.e., head of the national laboratory, university, or IIT and principal scientific adviser to the government of India in case of specified person) for seeking approval.
- Prescribed annual compliances to be undertaken by the national laboratory, university, IIT, or a specified person viz., maintenance of separate accounts, audit of such accounts, etc.

Tax benefits on R&D activities exported by unit set up in SEZ

R&D tax relief

Income tax benefit as under:

- First five years of operations – 100 percent tax benefit on eligible profits.
- Next five years of operations – 50 percent tax benefit on eligible profits.
- Next five years of operations – 50 percent tax benefits on eligible profits (as credited to specified reserve).

This deduction will be restricted to the Unit that has received a letter of approval on or before March 31, 2020 and operations have commenced on or before September 30, 2020.

No tax deduction is allowed for companies opting for concessional tax rate of 22 percent¹ or 15 percent.¹

⁴For the financial year commencing before April 1, 2020, weighted tax deduction at a higher percent is allowed.

⁵For the financial year commencing before April 1, 2017, tax deduction of 125 percent of the sum paid is allowed.

Eligibility requirements

Letter of approval from the Development Commissioner to set up a "Unit" in the SEZ is obtained on or before March 31, 2020.

The Unit has not been formed by the splitting up or reconstruction of an existing business or by transfer of used plant and machinery.

The Unit commences to provide R&D services on or after April 1, 2006, but on or before September 30, 2020, in the SEZ.

The R&D services should be exported from India.

Registration/claim process

Undertaking certain prescribed compliances such as filing of periodic returns and furnishing of report under a prescribed form.

Patent box regime

R&D tax relief

Reduced tax rate of 10 percent on royalty income earned from patents *developed and registered* in India without deduction of any expenses.

Eligibility requirements

Patent should be developed and registered in India.

Developed means at least 75 percent of the expenditure incurred in India by a person resident in India, being a patentee as per the Patents Act, 1970, for any invention in respect to which patent is granted.

Qualifying royalty income is specifically defined.

Registration/claim process

The patent should be developed and registered in India under the Patents Act, 1970.

Undertaking certain prescribed compliances such as furnishing of requisite form under the Income-tax Act, 1961.

Other grants and incentives

Other funding benefits for R&D activities

Federal incentives in the form of funding available to certain prescribed R&D projects subject to applicable conditions.

Incentives are offered by various states in India in the form of fiscal and non-fiscal incentives such as Capital subsidies, turnover subsidies, and reimbursement of GST paid to the states. These incentives are introduced to encourage industrial development in states and improve cash flow and the payback period of the investment.

Other grants and incentives under indirect tax law

Goods and Services Tax (GST)

Concessional GST rate at 5 percent is applicable on domestic procurement of various goods by public/private research institution (other than a hospital), registered with the DSIR, subject to various conditions such as the following:

- The Institution shall produce, at the time of supply, a certificate to the supplier from the head of the institution, in each case, certifying that the said goods are essential for research purposes and will be used for stated purpose only.
- The aforementioned goods shall not be transferred or sold by the institution for a period of five years from the date of installation.

R&D services (in relation to pharmaceutical sector) supplied to overseas recipient treated as export of service subject to the conditions stated in the GST law. Whenever services rendered by R&D unit qualify as export of services, R&D unit is entitled to claim refund of the GST paid on procurements/imports of goods and services.

Customs

Basic Customs Duty (BCD) is exempt on import of specified equipment, instruments, raw materials, components, pilot plant, and computer software for R&D projects undertaken by any company having an in-house R&D unit recognized by DSIR subject to various conditions.

- The said project is funded by government of India in a ministry, department, or council, etc.
- The share of such ministry, department, or council shall not be less than 20 percent of total cost of the project.

However, no exemption of Integrated Goods and Services Tax (IGST).

- Concessional BCD rate of 5 percent and full exemption of IGST on import of research equipment by the public-funded research institutions or a university of an IIT or Indian Institute of Science, Bangalore or Regional Engineering College, noncommercial institutions (other than a hospital). The conditions for the above exemption are same as mentioned above for concessional GST rate.

Ireland

Introduction

Ireland's success as an investment location for mobile R&D activities continues to grow. Companies have chosen Ireland as a prime location for their innovative projects in order to take advantage of the favorable corporation tax regime, an educated and experienced workforce, and accessibility to the European market. The Irish R&D tax credit regime has proven highly effective in increasing the level of significant investments in R&D in Ireland since its introduction in 2004. Since then, the regime has been amended and generally enhanced with every annual budget.

Critical changes to Ireland's R&D tax credit regime were introduced in 2022 to align the R&D tax credit with international tax reforms and to ensure that the credit remains an important and relevant incentive for all claimant companies. The changes brought in have safeguarded the Irish R&D tax credit by ensuring that it meets the OECD BEPS Pillar Two definitions of a "qualified refundable tax credit." An increased rate of credit (30 percent, up from 25 percent) applies for accounting periods commencing on or after January 1, 2024. This measure is designed to both mitigate the impact of Pillar Two on the net benefit of the R&D tax credit and, for companies not under the scope of Pillar Two, to provide an enhanced benefit to encourage an increase in R&D activity among indigenous and early-stage companies.

This probusiness government policy helps drive the dynamic research, development, and innovation sector and ensures Ireland remains competitive as a location of choice for R&D activities as well as maintains a strong indigenous enterprise base.

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Overview of R&D incentives

The R&D tax credit rate for accounting periods commencing on or after January 1, 2024 is 30 percent. For accounting periods commencing prior to January 1, 2024, the rate is 25 percent. The credit rate applies to qualifying R&D expenditure incurred by the company and is available in addition to the normal 12.5 percent trading corporation tax deduction for R&D.

Definition of R&D

For the purposes of the R&D tax credit, R&D is defined as any activity whereby the company (or group) seeks to achieve scientific/technological advancement within an approved field of science/technology (e.g., natural sciences, engineering and technology, medical sciences, and agricultural sciences) that involves the resolution of scientific/technological uncertainty that is systematic, investigative, or experimental in nature and that involves basic research, applied research, or experimental development. The tax credit operates on a group basis and is available to companies within the charge to Irish tax that undertake R&D activities in the European Economic Area (EEA) and the United Kingdom.

R&D tax credit

The R&D tax credit rate for accounting periods commencing on or after January 1, 2024 is 30 percent of eligible expenditure. For accounting periods commencing prior to January 1, 2024, the rate is 25 percent.

Eligible expenditure can include revenue expenses (e.g., salaries, utilities and materials) that are deductible for the purposes of computing corporation tax and capital expenditure such as plant, machinery, and buildings.

Prior to the changes introduced by Finance Act 2022, the credit was first used to reduce a company's corporation tax liability. Where a company had offset current and previous years' corporation tax liabilities, the credit was then available as a cash refund and was typically paid out in three installments spread over three years. This method of accessing the benefit of the R&D tax credit is referred to as the "old rules." Companies with accounting periods commencing prior to January 1, 2023 have the option to utilize the "old rules."



The changes brought in by Finance Act 2022 ensures that the Irish R&D tax credit meets the OECD BEPS Pillar Two definitions of a "qualified refundable tax credit." Companies will now be required to claim the R&D tax credit via a new three-year fixed payment schedule, with no option to offset the full R&D tax credit amount against corporation taxes paid or owed. The schedule operates as follows: 50 percent of the credit is refunded in year one, 30 percent of the credit is refunded in year two, and 20 percent of the credit is refunded in year three. Payment is subject to Revenue being satisfied that the company has filed a "valid claim."

The company has the option to elect for each installment of the refund to either be paid as cash or provided as an offset against any tax heads where a balance is owed to Revenue. A claim for the relevant refund installment must be made within the company's corporation tax return each year. This revised method of accessing the benefit of the credit is referred to as the "new rules." The new rules apply to accounting periods commencing on or after January 1, 2023.

Particular care should be taken to ensure that the R&D tax credit claim filed by a company meets the requirements of a "valid claim," i.e., (i) the numerous panels in the R&D tax credit portion of the corporation tax return are completed correctly, (ii) the science test has been met, and (iii) the accounting test has been met. The credit is evidence based, and it's important for claimant companies to have sufficient, relevant, and contemporaneous documentation to substantiate their claims.

Eligibility requirements

In order to be entitled to claim the R&D tax credit, the company must satisfy the requirements set out in Section 766, 766C, and 766D of the Taxes Consolidation Act 1997:

- The company must be within the charge to Irish corporation tax
- The company must be carrying on a trade (pre-trading R&D expenditure may be claimed once trading commences)
- R&D expenditure must be incurred by the company wholly and exclusively in the carrying on of qualifying R&D activities
- R&D activities must be carried on by the company's employees
- R&D activities must be carried on in a relevant member EEA state or the UK, as defined by the legislation
- R&D expenditure incurred is tax deductible expenditure in respect to the trade being carried on by the company
- Capital items, on which expenditure was incurred for R&D purposes, must qualify for wear and tear allowances.

Expenditure met by grant assistance received from the State, EU, or EEA does not qualify for the credit; however, a claim may still be made for the portion of R&D expenditure not met through grant assistance.

Registration/Claim process

Companies have 12 months from the end of the relevant accounting period in which to make a claim.

Where a company is satisfied that it can comply with the requirements of the legislation and has maintained the necessary supporting records, a claim for relief may be made via the corporation tax return.

A new requirement has been introduced for companies to notify Revenue of their intention to claim the credit. The notification is due to be made 90 days before the credit claim is filed. This applies where it is the company's first R&D tax credit claim or its first claim in over three years. This requirement applies for accounting periods commencing on or after January 1, 2024.

R&D tax relief – Other relevant information

There is a one-year transitional period in place in relation to the new regime during which companies can have the option to make a claim under the new rules or under the "old rules" for accounting periods commencing before January 1, 2023.

The transitional rules also permit payable R&D tax credit installments carried forward from accounting periods that commenced before January 1, 2022 (i.e., payable installments two and three from the previous year's claim and from the pre-preceding year's claim) to be claimed in the accounting period commencing on or after January 1, 2022. This provision is not available for accounting periods commencing on or after January 1, 2023.

Expenditure on plant and machinery (P&M) can be included in an R&D tax credit claim. In order to qualify, P&M must be eligible for wear and tear capital allowances and must be used for the purposes of undertaking R&D activities.

P&M expenditure must be apportioned to R&D activities based on the time it is used wholly and exclusively for the purposes of R&D activities over the P&M's useful life.

Companies that intend to construct or refurbish buildings or structures for both R&D and other activities may claim an R&D tax credit in respect to the portion (as appears to the tax inspector to be just and reasonable) of the costs that relate to R&D activities. This is based on the provision that a minimum of 35 percent of the building is used for conducting R&D activities for the first four years from when the building is first brought into use for the purpose of the company's trade. A 10-year claw back exists where the building or structure is sold or ceases to be used by the company for the purpose of R&D or for the purpose of the same trade.

Expenditure incurred on R&D activities outsourced to an unconnected third-party or third-level institution can be included in an R&D tax credit claim, subject to restrictions (limited to 15 percent of the company's non-outsourced R&D spend or up to EUR100,000 whichever is the greater).

A claimant company that outsources R&D activities to unconnected third-party subcontractors is required to notify the relevant subcontractors, on the day of payment or before, that the payments made would form part of the claimant company's R&D tax credit claim (and that the subcontractor may not make an R&D tax credit claim for the same activities).

Other grants and incentives

Intangible assets relief

Tax relief is available for capital expenditure incurred by companies on a broad range of intangible assets. The range of assets qualifying for the relief is extensive and includes, for example, trade names, brands, know-how, publishing titles, copyright, and goodwill directly attributable to those intangibles. This presents Irish companies with an opportunity to acquire ownership of and manage global intangible assets from Ireland.

How it works

- Companies carrying on a trade will be entitled to claim a tax write-off for the capital cost of acquiring or developing Specified Intangible Assets (SIAs)
- Where an SIA is amortized or impaired for accounting purposes, the tax write-off will be available in line with the accounting write-off. Where an SIA is not amortized for accounting purposes, or indeed has a long life, a company can elect to take the tax write-off over a 15-year period.
- Relief is available where the SIA is purchased from a third party. This relief can apply to an Irish subsidiary acquiring intangible assets from its overseas parent company, subject to arm's-length pricing arrangements. Consideration would also need to be given to widen the implications of intergroup transactions, particularly with respect to the introduction of OECD Pillar Two rules.
- In relation to in-house development, while revenue expenditure would generally have been deductible for tax purposes, prior to the introduction of the new provision, it would have been difficult to secure a deduction for capital spend
- Capital expenditure incurred by a company on the in-house development of SIAs should now also qualify for tax relief. The principal restriction is that relief for capital allowances and certain interest costs (used, for example, to fund the purchase of an intangible) is restricted to 80 percent of the related annual income before capital allowances and interest. Ireland has also introduced interest limitation rule (generally imposes a restriction on the interest deductibility of corporate entities up to 30 percent of EBITDA) that may impact the level of tax relief. Unitized interest and capital allowances can be carried forward for use in future years.

Knowledge Development Box

The Knowledge Development Box (KDB), introduced in 2016, is aimed at incentivizing companies to undertake innovative activities in Ireland by providing a lower effective corporate tax rate for qualifying profits generated from commercializing certain intellectual property (IP). The applicable effective corporation tax rates are 6.25 percent (prior to October 1, 2023) or 10 percent (after October 1, 2023).

It should be noted that the expectation is that the KDB will have limited applicability following the rate change and introduction of Pillar Two.

The KDB applies to accounting periods commencing on or after January 1, 2016, and the relief must be claimed within a two-year period from the end of the accounting period to which the claim relates. In order to qualify for the KDB rate, the income generated from the IP must flow into the same entity that undertakes the R&D activities leading to the IP creation.

The KDB follows the modified nexus approach endorsed by the OECD. This approach links the KDB relief to the proportion of qualifying R&D expenditure being incurred by the company in Ireland as a percentage of overall group expenditure. In simple terms, the higher the proportion of R&D that takes place in the Irish entity, the greater the proportion of income that may qualify for the KDB rate.

The IP must be the result of R&D activities, as defined by the R&D tax credit legislation. The IP is restricted to:

- Certain patented inventions and copyrighted software
- Plant breeders' rights, supplementary protection certificates for medicinal products, and plant protection certificates.

Marketing-related IP, such as trademarks, brands, and image rights, does not qualify for the KDB.

Smaller and midsize companies (defined for this purpose as companies with annual income from IP not in excess of EUR7.5 million, employ fewer than 250 people, and have a turnover of less than EUR50 million or a balance sheet of less than EUR43 million) may be permitted to expand the definition of IP to include inventions that are certified as being novel, nonobvious, and useful.

In other words, the IP must be "patentable" but does not need to be patented.

Taxpayers will be obliged to "track and trace" and provide documentary evidence of expenditure incurred, income generated from the IP assets, and activity undertaken to generate the IP assets.

State-funded grants

State funding is available in the form of RD&I, Training, Capital, Environmental, and Employment grants. The State agencies involved are IDA Ireland for international firms and Enterprise Ireland (EI) for indigenous firms.

- *Grants for expenditure on RD&I*
- *Training grants:* The grant supports eligible education and training activities including specific work-related training and general skills training
- *Environmental grants:* Companies can receive a range of supports for environmental projects. The Environmental Aid Scheme supports larger projects, where significant carbon abatement can be achieved. This scheme provides financial support for implementing major renewable and energy efficiency projects, e.g., solar panels, heat pumps, electrical charging infrastructure, and biofuel production.

The following grants are generally restricted to FDI companies that are located in certain regions (i.e., certain Border, Midlands, and West [BMW] areas):

- *Employment grants:* FDI companies can receive a portion of support of each new employee base salary for a number of years. This fund is restricted to certain locations within Ireland. For existing FDI, the company must be diversifying significantly into an entirely new product line or service activity as evidenced by a change in NACE code.
- *Capital grants:* FDI companies can receive support for capital projects. For existing FDI, the company must be diversifying significantly into an entirely new product line or service activity.

Israel

Introduction

Israel sees technological innovation as a valuable resource for its economic growth and prosperity. Israel's objectives are preserving and strengthening technological leadership and entrepreneurial culture, contributing to production and export, and creating quality employment, all while positioning Israel at the forefront of global innovation.

Israel offers extremely supportive conditions for companies seeking to invest in Israel. Therefore, numerous laws have been legislated in Israel to incentivize the technology sector, both for entrepreneurs and investors. Per these parliamentary efforts, government grants, reduced tax rates, tax exemptions, and other tax-related benefits can be obtained under the Law for the Encouragement of Capital Investments (hereinafter, the Encouragement Law) and the Law for the Encouragement of Industrial R&D (hereinafter, the R&D Law).

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Overview of R&D incentives

Definition of R&D

The terms “research” and “development” are defined under the Encouragement Law, as follows:

- “Research” means a planned investigation to discover new knowledge with the expectation that it will be useful in developing a new product or process or will significantly improve an existing product or process
- “Development” means the application of research findings or other knowledge, aimed at the production of a new product or the development of a new process or the improvement of an existing product or process, including the formulation of a plan or its examination, the preparation of plans and models, the construction of prototypes, and the operation of an experimental model or a semi-industrial facility.

Tax benefits

Preferred technological enterprise

Entities located in National Priority Regions are eligible for a reduced CIT rate of 7.5 percent, while entities located in other areas are eligible for a 12 percent CIT (instead of a rate of 23 percent). Generally, the tax rate when distributing dividends will be 20 percent, or 4 percent when certain conditions are met. Capital gains tax rate on sale of intangible assets may be reduced to a rate of 12 percent under specific circumstances. Accelerated depreciation for machinery and equipment is 200 percent and 400 percent for buildings.

Special preferred technological enterprise

Corporation that meets all the conditions of Preferred Technological Enterprise and has revenues, at the group level, of NIS10 billion is entitled to the benefits of Special Preferred Technological Enterprise. The benefits are similar to those of a Special Preferred Technological Enterprise, except for the CIT, which will be reduced to 6 percent, regardless of the entity’s location within Israel. Capital gains tax rate on sale of intangible assets may be reduced to a rate of 6 percent under specific circumstances.

R&D expenses deduction

According to the provisions of section 20A of the Israeli Tax Ordinance (ITO), R&D expenses may be deducted for tax purposes over a period of three years. Companies may deduct up to 100 percent of their R&D expenses in the year they were paid, contingent on the Israeli Innovation Authority’s (IIA) approval that the expenses are indeed R&D expenses.



Company performing R&D for a foreign company

Entities owned by foreign shareholders holding at least 75 percent of their shares and located in National Priority Regions are eligible for a reduced CIT rate of 7.5 percent, while such entities established in other areas are eligible for a 16 percent CIT. The tax rate when distributing dividends will be 20 percent. Accelerated depreciation for machinery and equipment is 200 percent and 400 percent for buildings. IIA approval should be obtained to claim the reduced tax rates.

The Law for Encouragement of Knowledge-Intensive Industry (Temporary Order)

The Law for the Encouragement of Knowledge-Intensive Industry (hereinafter: New Angel’s Law) grants tax benefits when investing funds in capital of an R&D company meeting certain conditions. Its goal is to encourage investments in R&D-oriented companies. Additionally, the New Angel’s Law offers a tax exemption upon the payment of interest to non-Israeli financial entities, aimed to assist such companies to receive more economical loans without withholding obligations. The New Angel’s Law offers four benefits:

1. **Tax credit** – Tax credit calculated by multiplying the lower of either the investment amount or a maximum investment amount (NIS4 million) by the applicable capital gains tax rate, which ranges from 23 percent to 28 percent
2. **Tax deferral of a capital gain** – Under certain conditions, tax deferral is granted when recognizing capital gain upon the disposal of shares in a “Preferred Company”, provided that the funds received are used to perform an additional investment in an R&D Company. The deferred capital gain is calculated as the lower of the cash invested in the additional investment or NIS5.5 million.

3. **Deduction of certain capital expenditures as current expenses** – Subject to certain conditions, an investment in shares in an R&D company upon its initial public offering in the Israeli stock exchange, up to a maximum of NIS5 million, can be recognized by the investor as a capital loss in the tax year in which the investment was made or in subsequent tax years until the end of the benefit period (namely, upon the expiration of the New Angel's Law), provided that the company's valuation reaches at least NIS100 million.
4. **Investment as an eligible expense** – "Preferred Company" that owns a "Preferred Technological Enterprises" that purchases at least 80 percent of the means of control in high-tech companies will be allowed to deduct the purchase price of the acquired company as an expense, over a period of five years, against its technological income. The target company can be Israeli or foreign, subject to the specific conditions that apply for each type of company.
5. **Tax exemption on interest** – The exemption applies to interest income paid to a Foreign Financial Institution (FFI), arising from a loan of at least USD10 million provided to the Israeli R&D company.

The New Angel's Law came into effect on July 31, 2023 with a termination date of December 31, 2026.

It should be noted that the definitions of "R&D company", "high-tech company", and "preferred company" can vary depending on the context or the specific benefit emphasizing the need for careful examination in each case.

Eligibility requirements

Preferred Technological Enterprise and Special Preferred Technological Enterprise eligibility requirements

The eligible entities should meet the following conditions:

- Exportation of at least 25 percent of the company's annual revenues to a market with over 14 million residents (including indirect exports).
- The company's main activity is manufacturing (manufacturing includes, among others, software production, industrial R&D for foreign residents [subject to IIA approval], and industrial R&D in the field of renewable energy).
- The company's R&D expenses in the three years preceding the tax year:
 - Amounts to an average of 7 percent per annum of the company's total revenues
 - Were above NIS75 million per year.

- The company meets **one** of the following conditions:
 - Twenty percent or more of the company's employees are R&D employees, or the company employs at least 200 R&D employees
 - The company was previously or is currently supported by a venture capital fund through an amount of at least NIS8 million
 - Over the past three years, the company's revenues had grown at an average rate of 25 percent each year (provided there were revenues of at least NIS10 million in the first year)
 - Over the past three years, the company's employment rate had grown at an average rate of 25 percent each year (provided there were at least 50 employees in the first year).

In order to be entitled to the Special Preferred Technological Enterprise benefits, in addition to the conditions above, the company and its affiliated companies must have a yearly turnover of at least NIS10 billion, and its preferred taxable income is at least NIS1 billion.

"Innovation Promoting Enterprise" – A company that does not meet conditions "c" or "d" above may obtain an approval from the IIA to be considered as a company with an Innovation Promoting Enterprise and, as such, be entitled to the same tax benefits as a Preferred Technological Enterprise.

R&D expenses deduction

To receive this tax benefit, the applying company should obtain approval from the IIA. The applicant company should persuade the IIA that its R&D expenditures comply with the IIA's regulations, that the existing R&D program contributes to the development of the company, and that the R&D expenditures are compatible with its R&D achievements. Please note that the IP created from such R&D expenses must be for the use of the company itself. The IIA can approve the deduction of up to 100 percent of a company's R&D expenses.

Company executing R&D for a foreign company

To enjoy this tax benefit, a company has to meet certain criteria including minimal export of at least 25 percent of its revenues. In addition, the company needs to obtain approval from the IIA, showing that its R&D is innovative and that it receives payments from an international company for its R&D services.

The New Angel's Law

6. Tax credit – The primary conditions to qualify for the tax credit are as follows:

- The company should be considered as an R&D company under the definition of the New Angel's Law
- The investor was not affiliated with the company from its incorporation date to the investment date
- The investor retained direct ownership of the shares allocated to him in exchange for his investment in the R&D company throughout the entire benefit period
- The investment was made by individuals or small corporations.

7. Tax deferral of a capital gain – The primary conditions to qualify for the tax deferral are as follows:

- The capital gain was realized by an individual
- The capital gain was derived from a sale of a preferred company that owns a Preferred Technological Enterprise
- An additional investment must be made within a period of four months prior to the sale and 12 months following it.

An investor eligible for benefits one and two can choose which one to apply but cannot benefit from both concurrently.

8. Investment as an Eligible Expense – The primary conditions so a purchase of a high-tech company will be considered as an expense are as follows:

- The acquired company must have an "Intangible Asset" in accordance with the definition under the New Angel's Law (the Qualifying Company)
- The purchasing company is a "Preferred Company" that owns a Preferred Technological Enterprise
- Within 12 months, the company acquired a controlling stake in the "Qualifying Company", resulting in the purchasing company owning at least 80 percent of each type of controlling stake in the acquired company
- The purchasing company paid either 25 percent of the specified purchase amount or 10 percent of the net purchase amount owed to the "Qualifying Company" while the temporary order is in effect
- A preliminary agreement was made while the temporary order is in effect

- The acquired company can be Israeli or foreign, subject to specific conditions that apply to each type. It is important to note that for the acquisition of a foreign company, the conditions for qualifying for the benefit are significantly stricter than for an Israeli company.

9. Tax exemption on interest – The primary conditions to qualify for a tax exemption upon the payment of interest are as follows:

- The lender is a Foreign Financial Institution (FFI) as defined in the New Angel's Law
- The company receiving the loan had a preferred technological income of at least NIS30 million in the year prior to year in which the loan was granted
- The loan amount is at least USD10 million and was provided in cash
- Throughout the entire loan period, and for the four years preceding it, there were no special relationships between the receiving company and the FFI
- The amount and employees in Israel and associated costs did not decrease by more than 30 percent compared to the year before receiving the loan.

Funding programs

Many funding programs are established as part of the goal to encourage the tech sector. Some programs are available to all companies, some to certain sectors, some to companies at a certain size, etc. Below is a non-exhaustive list of available programs at this time.

Start-up grants programs

The IIA launched a new grants program for start-up companies in March 2024, replacing the previous program. The grants program has three tracks: Pre-seed grants, Seed grants, and Round A grants. If certain conditions are met, the IIA will participate in the companies' fundraising rounds.

In addition to the existing programs, the IIA publishes from time-to-time special programs in specific fields such as agritech, food tech, AI training, and digitalization of government agencies.

Employment grants programs

Several employment grant programs under the Encouragement Law, intended, for example, to encourage the recruitment of high-wage employment (2.5 times the average wage in Israel) in national priority areas and Jerusalem. These programs assist investors looking to establish, expand, or copy ventures to these high-paying areas. The rate of grants is, for each employee, an average of 25 percent of the wage cost for four years and no more than the NIS30,000 wage cost ceiling. Additionally, there are employment grant programs to incentivize student employment and integrate minorities into the intensive R&D industry.

International programs

The IIA collaborates with numerous countries and agencies in the framework of international programs. These programs provide collaborations with leading corporations, public entities, and research institutes worldwide. Applying entities may obtain R&D grants for such international collaborations and assistance in penetrating international markets.

Additionally, Israeli entities are eligible to participate in the Horizon Europe program.

Claim process

Preferred Technological Enterprise and Special Preferred Technological Enterprise

In most cases, a preapproval or tax ruling is not mandatory when claiming the tax benefits. An entity that meets the conditions of the Law will submit its tax reports while claiming the Tax Benefits (“green track” process). The ITA may examine this at a later stage in a future tax audit.

To achieve a level of certainty, an entity may request the ITA to receive a tax ruling whereby the company is entitled to the benefits under the Encouragement Law.

Start-up grants programs

An applying company should submit a request to the IIA that is consistent with a business plan, an R&D plan, and an R&D budget. The IIA’s professional examiners will examine the submitted application and evaluate it according to the IIA’s instructions. The applications are usually assessed according to the technological and functional innovation level, the economic aspect of the plans’ products, and the company’s abilities. Also, examiners will check the company’s expenses and compliance with the IIA’s regulations.

Italy

Introduction

The Italian framework used to be characterized by sporadic and short-term general R&D tax incentives. In 2021, some of the incentives that had been introduced in past years to encourage enterprises to invest in R&D and “Industry 4.0” have been renewed and/or remodeled, setting a longer timeframe that is still in force during 2024, as better detailed below. Beside the tax incentives described below, Italy provides a wide portfolio of other financial and cash incentives.

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Overview of R&D incentives

- An R&D tax credit ranging from 5 percent to 10 percent of qualifying R&D expenses is available
- A New IP-box regime, so-called “Patent Box”, is available. It consists in an additional 110 percent tax deduction of R&D costs incurred in relation to eligible intangible assets
- A tax credit ranging from 5 percent to 20 percent of qualifying expenses incurred for buying eligible new “Industry 4.0” capital goods is available
- A tax credit ranging from 5 percent to 45 percent of qualifying expenses incurred for buying eligible new “Transition 5.0” capital goods is available
- Qualified researchers willing to establish their tax residence in Italy shall benefit from a 90 percent exemption from Individual Income Tax (IRPEF) and from a full exemption from IRAP.

RD&I tax credit

The 2022 Budget Law has extended to December 31, 2031 the tax credit introduced by the 2020 Budget Law for investments in R&D, and to December 31, 2025 the tax credit related to technological innovation and design activities.

Taxpayers incur eligible expenses by:

- Engaging in fundamental research, industrial research, or experimental development in the areas of science or technology
- Investing in technological innovation in areas that could contribute to the development of new or substantially enhanced products or production processes
- Creating aesthetic and other designs, with a view to planning and producing new products and samples in various product sectors—textiles, fashion, footwear, eyewear, gold, furniture and furnishings, and ceramics.

The size of the tax credit varies according to the type of activity, as follows:

- For Category A activities, the tax credit amounts to 10 percent of the cost base, net of any subsidies, or contributions received for the same eligible expenses. The maximum tax credit is EUR5 million.



- For Category B activities, the tax credit amounts to 10 percent (for FY 2023) and 5 percent (for FYs 2024 and 2025) of the cost base, net of any subsidies, or contributions received for the same eligible expenses. The maximum tax credit is EUR2 million (EUR4 million if the eligible activities are aimed at achieving an ecological transition or a 4.0 digital innovation target).
- For Category C activities, the tax credit amounts to 10 percent (for FY 2023) and 5 percent (for FYs 2024 and 2025) of the cost base, net of any subsidies, or contributions received for the same eligible expenses. The maximum tax credit is EUR2 million.

The RD&I tax credit can only be used in three equal annual installments. Any taxpayer wishing to claim the RD&I tax credit must obtain a certificate from an auditor, attesting that it has actually incurred the expenses. The taxpayer must also compile and keep a technical report illustrating the purposes, substance, and results of the eligible activities pursued in each FY in relation to the projects/subprojects underway. A new certification attesting the eligibility of the activities performed from a technical perspective, based on technical analyses carried out by qualified certifiers enrolled to a specific register, will very soon become available.

There is a specific tax credit for companies engaged in R&D activities on chips and certain pharma products. This tax credit is available also in case of R&D activities performed in Italy on behalf of a foreign principal.

New Patent Box

The Patent Box regime has evolved since its introduction in FY 2015 and now operates as an enhanced tax deduction regime for costs incurred in intangible asset RD&I.

The New Patent Box rules grant a 110 percent super-deduction from the year in which the relevant intangible asset is registered. This super-deduction also encompasses RD&I costs incurred in the eight financial years prior to that in which the intangible asset becomes legally protected. Therefore, track-and-trace mechanisms have to be implemented so that costs can be mapped with precision.

The economic contribution made by the intangible assets is no longer calculated by identifying the portion of business income deriving from them; instead, the RD&I costs incurred in relation to intangible assets are stepped up by 110 percent.

Only the following types of intangible assets qualify for this relief:

- Software protected by copyright
- Industrial patents
- Designs and models.

The rules exclude trademarks and legally protectable processes and formulas and industrial, commercial, or scientific knowledge, i.e., the know-how included under the initial system. The scope of application is now restricted to legally protected assets used directly or indirectly in a business activity.

It is possible to compile documentary evidence of the circumstances in which the tax relief is claimed; this enables taxpayers to claim penalty protection. If no such documentation has been compiled, or the documentation does not satisfy the necessary requirements, the administrative penalty for an over-deduction will range from 90 percent to 180 percent of the additional tax due or of the difference in the tax credit used.

The New Patent Box relief can be combined with the RD&I tax credit described above.

Tax credit on investments in “Industry 4.0” capital goods

The 2022 Budget Law has extended the tax credit for investments in Industry 4.0 new capital goods up until December 31, 2025 or—if the order has been accepted by the seller by December 31, 2025 and a down payment of at least 20 percent has been made—June 30, 2026.

The tax credit applies to goods that meet three requirements: they must be new, they must be capital goods, and they must be for facilities located in Italy, even if they have been purchased abroad.

The size of the tax credit ranges widely and depends on the window in which the purchase is made, the type of asset, and the amount of expenditure incurred. However, in general, the following rules apply:

- For 4.0 tangible assets indicated in Attachment A to Law no. 232/2016 purchased/acquired between January 1, 2023 and December 31, 2025 (or by June 30, 2026 as explained above) → the tax credit amounts to 20 percent/10 percent/5 percent (depending on the expenditure bracket)
- For 4.0 intangible assets indicated in Attachment B to Law no. 232/2016 → the tax credit amounts to 20 percent of the cost up to December 31, 2023 or June 30, 2024 if the seller has accepted the order and a down payment of at least 20 percent of the acquisition cost has been made by December 31, 2023, and then decreases to 15 percent and 10 percent for investments made in 2024 and 2025, respectively.

The tax credit can be used in three equal annual installments, starting from the year in which the asset becomes “interconnected.” A recapture mechanism applies in the event that the assets are sold or transferred to production facilities located abroad by December 31, of the second year following that in which they become interconnected.

The law establishes certain formal requirements.

Tax credit for 5.0 Transition

Starting from 2024, the Italian law framework grants a new separate and enhanced tax credit available to Italian resident companies (including Italian permanent establishments of foreign entities) that invest in new tangible or intangible 4.0 capital goods—again listed in annexes A and B to Law 232/2016—if carried out during 2024 and 2025 as part of innovation projects that achieve qualifying reductions in energy consumption.

The reduction in consumption is calculated with reference to the energy consumption recorded in the FY preceding that in which the investments are made, net of changes in production volumes, and all external factors that influence energy consumption.

The amount of the tax credit ranges widely (between 5 percent and 45 percent) and depends on the energy efficiency rating reached and on the magnitude of the investment, with decreasing rates.

A soon-to-be-issued ministerial decree will provide a clearer picture defining the implementing provisions of the tax credit.

If part of innovation projects that achieve qualifying reductions in energy consumption, the following expenses are also eligible:

- Investments in new tangible goods aimed at self-production of energy from renewable sources intended for self-consumption, with the exception of biomass, including facilities for storing the energy produced
- Expenses for the training of staff aimed at the acquisition or consolidation of skills in technologies relevant to the digital and energy transition of production processes.

A recapture mechanism applies in the event that the assets are sold, intended for purposes unrelated to the business operations or destined to production facilities other than those entitled to the relief (even if belonging to the same entity) by December 31 of the fifth year following that in which the investments are completed.

The law establishes certain formal requirements, including a double certification requirement of the energy efficiency level.

Tax incentives for inpatriates

Qualified researchers willing to establish their tax residence in Italy shall benefit from a 90 percent exemption from Individual Income Tax (IRPEF) and from a full exemption from IRAP. The incentives shall apply in the year during which the researcher becomes a tax resident in Italy and for the following 5 years (the following 5 years are increased to 7, 10, or 12 years in case the researcher satisfies specific requirements). Lower incentives are applicable for non-qualified inpatriates.

Pillar Two implementation

Legislative Decree no. 209 of December 27, 2023, approved and published in the *Official Gazette* on December 28, 2023, brings into Italian law the provisions of Council Directive (EU) 2022/2523 of December 14, 2022 on ensuring a global minimum level of taxation for MNE groups and large-scale domestic groups, i.e., a minimum tax rate of 15 percent in each jurisdiction where they operate (Global Minimum Tax).

The Decree is basically in line with the Directive and the OECD Guidelines.

Most of the Italian tax credit should be viewed as qualified refundable tax credits and so they should not negatively impact on the ETR for GMT purposes.

However, some of the tax credits and other specific incentives (e.g., the new patent box) should be non-QRTC. The Italian government is considering repealing some of these incentives and replacing them with a lower CIR rate (15 percent) applicable to taxpayers making certain investments.

Final note

For the sake of completeness, it is noted that the Italian government is currently working on a substantial tax reform, which is (also) intended to deeply review and rationalize the tax incentives regime for businesses.

In particular, the government advocates for a systematic re-organization and simplification of the existing incentives through the introduction of a new unique “Incentives Code,” aiming at containing the extreme fragmentation of current incentive policies and achieve full efficiency of measures for businesses. The Ministry of Enterprise and Made in Italy (MIMIT) will have to adopt some implementing decrees within December 2024.

The reform is connected to the 2023–2025 Budget Law in line with the guidelines of the Economic and Financial Document and with the National Recovery and Resilience Plan (NRRP) and aims at the simplification of the rules on investment and measures to facilitate the development of South Italy as well as a major orientation toward global challenges such as the green and digital transition.

Japan

Introduction

Japan offers volume-based and incremental R&D tax credits to incentivize innovation and growth. The applicable period for the additional R&D tax credit systems (i.e., the tax credit systems on excess R&D expenditures over average sales proceeds), which are part of a temporary incentive regime, was extended to FYs beginning prior to March 31, 2026.

In addition, the maximum tax creditable amount was revised in a system that allows for a further tax credit for specified incremental R&D expenditure.

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Overview of R&D incentives

Tax credit for total R&D expenditure (volume-based credit)

- Large company
 - A credit of 1–14 percent of the total amount of R&D expenditure for an FY is allowed against the CIT liability of the FY for a company filing a blue-form tax return
 - The credit cap for FYs beginning between April 1, 2023 and March 31, 2026 is set at 25 percent of tax payable.
- Small and midsize company
 - A credit of 12–17 percent of the total amount of R&D expenditure for an FY is allowed against the CIT liability of the FY for small and midsize company filing a blue-form tax return
 - The credit cap for FYs beginning between April 1, 2023 and March 31, 2026 is 25–35 percent of tax payable.

Tax credit for specified R&D expenditure (incremental credit)

- A credit of 20 percent or 25 percent or 30 percent of the certain specific R&D expenditure for an FY is allowed against the CIT liability of the FY for a company filing a blue-form tax return
- The credit cap for FYs beginning between April 1, 2023 and 31 March 2026 is set at 10 percent of tax payable.

Definition of R&D

The following expenditures are incurred to conduct experiments and research concerning the manufacture of products, the improvement or invention of technologies, or the R&D of the new services:

- Expenditure for raw materials and labor costs (limited to expenditure concerning personnel with expert knowledge who devote themselves exclusively to the experimentation and research) and other expenditure (e.g., certain overhead costs and depreciation on equipment) required to conduct the experiments and research
- Expenditure incurred by a company conducting experiments and research through consignment, paid to the consignee for the purpose of the experiments and research
- Expenditure incurred in accordance with the R&D Partnership Law.



- R&D costs for the development of new services in line with the “fourth industrial revolution” (e.g., businesses using IT, big data, artificial intelligence), including operational costs for the development of new services. All operational activities below must be carried out.
 - Information collection by use of instruments or techniques that have functions of collecting a large amount of information and all or a main part of which is automated
 - Analysis by use of software that has the function of analyzing information exclusively used by information analyzing professionals in order to find out certain theory concerning the collected information
 - Designing new services that make use of the rules found by the above analysis
 - Confirming that the rules are reasonable and new services that make use of the rules suit the purpose.

Eligibility requirements for R&D expenditure

R&D tax credits are applicable in an FY in which the R&D expenditure is treated as a tax-deductible cost. For example, the acquisition cost of machinery used for R&D activities is eligible for R&D tax credits when the acquisition cost is depreciated for tax purposes.

If all or part of the R&D expenditure is recovered by other persons, R&D tax credits are not available for such expenditure.

R&D expenditure is also subject to R&D tax credits when it is incurred for improvement of existing technology.

R&D tax credits on total R&D expenditure

Large company

A company other than small and midsize companies filing a blue-form tax return(*) is eligible for R&D tax credits.

- (*) Blue-form tax return status is obtained by submitting an application form to the relevant tax office. Recordkeeping substantiation requirements are enforced under the Enforcement Regulations of the Corporation Tax Law.

A credit of 1–14 percent of the total amount of R&D expenditure for an FY is allowed against the CIT liability of the FY.

The credit cap for FYs beginning between April 1, 2017 and March 31, 2026 is set at 25 percent of tax payable.

Restriction on eligible companies for R&D tax credits

Large companies will not be allowed to apply R&D tax credits for FYs beginning between April 1, 2018 and March 31, 2024 where neither condition (i) nor (ii) is met.

- [Salary payments for continuously employed people in the current FY] is greater than [Salary payments for continuously employed people in the preceding FY].
- [Total acquisition cost of depreciable assets located in Japan in the current FY] is greater than [Total depreciation costs of depreciable assets recorded in the current FY] multiplied by 30 percent.

This rule is not applied to FYs where the current year’s income is equal to or smaller than the preceding year’s income.

Small and midsize company

A company with a capital of JPY100 million or less that is not a subsidiary of a large-scale company, and filing a blue-form tax return is also eligible for R&D tax credits.

A credit of 12–17 percent of the total amount of R&D expenditure for an FY is allowed against the CIT liability of the FY for small and midsize company filing a blue-form tax return.

The credit cap for FYs beginning between April 1, 2023 and March 31, 2026 is 25–35 percent of tax payable.

R&D tax credits on excess of R&D expenditure ratio of average sales proceeds

R&D expenditure ratio of average sales proceeds for the past four years (including the current year) is over 10 percent, applied to FYs beginning between April 1, 2019 and March 31, 2026.

Large company

Both of the following measures are available:

Creditable ratio	Creditable ratio	+	Creditable ratio (under basic rules) X {(R&D ratio – 10%) X 0.5 (upper limit: 10%)}
(Upper limit: 14%)	(under the basic rule)		
Maximum tax credit	Maximum tax credit (under the basic rule)	+	Corporation tax liability x {(R&D ratio – 10%) x 2} (Upper limit: corporation tax liability X 10%)

Small and midsize company

[FYs beginning between April 1, 2019, and March 31, 2026] Both of the following measures are available:

X {(R&D ratio – 10%) X 0.5 (upper limit: 10%)}	(under the basic rule)		
(Upper limit: 17%)	(under the basic rule)	+	Corporation tax liability x {(R&D ratio – 10%) x 2} (Upper limit: corporation tax liability X 10%)
Maximum tax credit	Maximum tax credit (under the basic rule) at 25%	+	Corporation tax liability x {(R&D ratio – 10%) x 2}

Tax credits for specified R&D expenditure

When a company incurs special R&D expenditure, the company is entitled to an additional 20 percent, 25 percent, or 30 percent R&D tax credit.

For the purposes of this rule, the scope of specified R&D costs and creditable ratio are as follows:

Scope of specified R&D expenditure (R&D costs used for the following R&D activities)		Creditable ratio
Joint R&D	National R&D institutions	30%
	Universities	
	Specified new business developers	25%
	Businesses promoting the utilization of results	25%
	Private enterprises	20%
	R&D partnerships	
Consignment R&D	National R&D institutions	30%
	Universities	
	Specified new business developers	25%
	Businesses promoting the utilization of results	25%
	Specified small and midsize companies	20%
	Certain private enterprises	
Royalties on intellectual property	Specified small and midsize companies	
R&D concerning orphan regenerative medicine products		
R&D concerning medicine products with special use		

Registration/Claim process

R&D tax credits are available only when the amount to be credited is stated in the final corporation tax return, and a schedule showing details of the computation of the tax credit is attached to the tax return.

Other grants and incentives

Japan also offers many different grants for innovation and R&D-related activities that vary by industry. Please inquire for additional information.

Lithuania

Introduction

The Lithuanian system for R&D tax incentives was established in 2008. The current tax incentive is an additional tax deduction of 300 percent of R&D expenses, except depreciation costs of noncurrent assets, in the tax period in which they are incurred. Moreover, the accelerated depreciation on qualifying R&D noncurrent assets may be used based on the current law on CIT. Taxpayers are encouraged to approach the Lithuanian Innovation Agency for explanations and guidance on what constitutes R&D.

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Overview of R&D incentives

Definition of R&D

The definition of R&D is established in the Lithuanian Law on Higher Education and Research.

Research and experimental (social and cultural) development is defined as a systematic creative activity of the study of nature, humanity, and society and the use of the results of such activity.

Research and experimental development covers three types of activities: fundamental research, applied research, and experimental (social and cultural) development.

- Fundamental research means experimental and/or theoretical operations that are carried out primarily to acquire new knowledge about the essence of phenomena and/or observed reality without aiming, at the time of research, to use the obtained results for a specific purpose
- Applied research means the experimental and/or theoretical operations carried out to acquire new knowledge and is primarily aimed at attaining specific practical objectives or at solving problems
- Experimental (social and cultural) development means a systematic activity based on the knowledge acquired through research and practical experience; the aim of which is to create new materials, products, and equipment; to develop new processes, systems, and services; or to improve those already created or developed. It also includes activities that aim to create, develop, or improve solutions to problems faced by human beings, culture, and society, based on the knowledge acquired through research and practical experience.

R&D expense deductions

The Law on CIT stipulates that a taxpayer may claim additional tax deductions for the prescribed amount of expenses incurred for an R&D project.

- Expenses incurred for R&D purposes may be deducted three times in the tax period in which they are incurred, provided that the R&D works are related to the usual or planned activities of the entity, which generate or will generate income or economic benefit



- Certain fixed assets used in R&D activities are depreciated or amortized in shorter periods (e.g., up to 50 percent annual rate is established for installations, machinery, and equipment). Such depreciation (amortization) costs can only be deducted once. The qualifying expenses incurred during an R&D project are as follows:
 - Wages and compulsory health and social insurance contributions of a person who directly participates in the R&D project
 - Business trip expenses, which are necessary and directly linked with the R&D works
 - Materials used in the R&D works and other costs of current assets
 - Services (scientific consulting services, premises and/or equipment rental, utilities, repair, storage, telecommunications, and other services) that are necessary to perform (and directly related to) the R&D works
 - Services purchased, if the acquired constituent work has been carried out in the EEA or a country outside the EEA that has concluded and brought into effect a double tax treaty with Lithuania
 - Import and input VAT from the R&D costs that may not be deducted for VAT purposes.

R&D tax relief

Grants for R&D project

The financial grants sourced by the national and EU funds are available for various R&D projects implemented in Lithuania. Grants are usually provided upon invitations to submit applications for R&D projects in strategic sectors, e.g., commercialization of R&D innovations, R&D projects for renewable resources, and internationalization of the R&D activities.

Other relevant information

R&D expenses have to be reduced by the funds or support received from the national budget, State Social Insurance Fund budget, Mandatory Health Insurance fund, other state money funds, municipal funds, EU funds, and other financial aid funds.

Eligibility requirements

- Generally, all taxpayers are entitled to claim a tax deduction for qualifying expenses that were incurred for an R&D project. The performed R&D activity must be related to the usual business activities of the entity that generated or will generate income or economic benefit. Usually, the R&D activities performed must have an element of novelty and address scientific and/or technological uncertainty.
- There are certain documentation and nature of R&D costs requirements established to qualify for an R&D project and, accordingly, to be entitled to apply the tax reliefs. The detailed requirements are prescribed by the government.

Registration/Claim process

Lithuanian entities and permanent establishments must complete the annual CIT return and file it with the local tax authorities. The amount of expenditure must be included in the annual CIT return, while the supporting documentation should be provided to the tax authorities upon request.

According to Decision No. 1183 of the Government of the Republic of Lithuania, dated November 19, 2008, in order to deduct the R&D expenses, a taxable entity has to have an approved R&D works' documentation that specifies R&D works (their aim, the status of implementation, and other important information). The R&D works' documentation must include a description of the works' novelty and progress, solution of scientific or technological problem or uncertainty, method used, the results (or expected results), how these results will be used in the entity's business activities, what expenses were incurred in the performance of R&D works, total amount of these expenses, and the calculations of other expenses incurred—including fixed assets—as well as criteria for the attribution of other expenses to the R&D works.

By the Decision No. 650 of the Government of the Republic of Lithuania, dated June 6, 2012, the recommended description of the R&D stages' classification was approved. It sets the R&D stages from knowledge, the acquisition of the product, creation in accordance with their corresponding activity descriptions, and expected performance results. In order to be clear about the qualification of an R&D project, it is possible for both taxpayers and tax authorities to consult with the Lithuanian Innovation

Agency. It can evaluate the project and provide expert conclusions. The taxpayer may apply for approval from the Innovation Agency to ensure that certain projects meet R&D eligibility requirements.

Other grants and incentives

The following CIT incentives are also available for investment projects in Lithuania:

- **Investment incentive for certain groups of fixed assets** (applicable 2009–2028): Companies may reduce their taxable profits up to 100 percent by the amount of expenses incurred for investment in certain fixed assets, machinery and equipment, computer hardware and software, communication equipment, and acquired rights. The incentive also applies to acquired trucks, trailers, and semitrailers. Part of the acquisition costs of fixed assets, which has not been utilized during the taxable year, may be carried forward but not more than four years.
- **Free Economic Zones (FEZ)**: Qualifying FEZ companies are exempt from CIT for 10 taxable periods and are subject to 50 percent of the standard CIT rate in subsequent 6 periods. Trade activities do not qualify for the incentive. The relief requires investment of at least EUR1 million by a FEZ company. An alternative exists for FEZ companies rendering services—investment of at least EUR100,000 but with an average minimum of 20 employees. At least 75 percent of company's income during a taxable year must be derived from the activities carried out in a FEZ. Exemption from real estate tax applies in a FEZ.
- **Double tax incentive for movie-making supporters** (applicable 2019–2028): An entity may deduct up to 75 percent of the funds provided for production of a film or its part in Lithuania from its taxable profit. Furthermore, the payable CIT may be reduced up to 75 percent by the amount provided for film production. If the amount of funds exceeds 75 percent of CIT payable, the exceeding amount may be carried forward to reduce profits of the two subsequent tax periods.
- **"Innovation Box"** regime (applicable starting from 2018): A reduced 5 percent CIT rate (instead of 15 percent) is applied to profits from commercialization of patentable inventions or software. Such relief is applicable, if the profits of commercialization are received only by the entity that created the assets and only this entity incurred all the costs. In addition, respective patent/copyright/software protection requirement applies. From 2025 the tax rate increase by 1 percent and will be 6 percent.

- **“Green corridor”** for large-scale investment projects. Large-scale investment project that meets the required investments of at least EUR20 million CapEx (EUR30 million when investing in Vilnius) and creating at least 150 new full-time jobs (200 when investing in Vilnius) in manufacturing, data processing, and internet server hosting services may enjoy 0 percent CIT rate for up to 20 years. The project developer has to sign a mandatory contract with the government which grants the project the status of national significance, ensuring fast decision-making and simplified bureaucratic procedures.
- A manufacturing company employing persons with limited working capacity (applicable starting from 2018): Companies whose income from self-produced products (i.e., manufacturing companies) accounts for more than 50 percent of total revenues and that employ persons with limited working capacity can reduce the calculated CIT by taking into account the share of persons with limited working capacity among all employees.

The share of persons with limited working capacity among all employees	Reduction of the calculated CIT
More than 50%	100%
40–50%	75%
30–40%	50%
20–30%	25%

Luxembourg

Introduction

Luxembourg considers that research and development (R&D) activities are of crucial importance for the growth and competitiveness of its economy. For this reason, it offers a wide range of support initiatives for companies and individual entrepreneurs that are engaged in R&D activities. Even though Luxembourg's R&D policy is largely based on cash grants, tax incentives also play an important role in that policy.

The Luxembourg tax incentives for R&D consist of three key components: (i) The Luxembourg IP regime offering an 80 percent tax exemption on net income derived from qualifying IP assets, (ii) tax credits for investments in qualifying assets (including equipment for R&D activity), and (iii) enhanced and accelerated depreciation for qualifying investments.

Under the Luxembourg IP regime, a taxpayer that enjoys the full benefit of the regime should reach an effective tax rate (ETR) of 4.9 percent approximately on its income connected to IP. The regime offers some flexibility in terms of the location of R&D activities and remains available under conditions for taxpayers outsourcing part of the R&D activities to a permanent establishment (PE) in a country located in the European Economic Area.

The regime may also be claimed on a pro-rata basis, if the Luxembourg taxpayer contributed in part to the R&D activities in relation to the qualified assets on which the IP regime is requested.

In terms of tax credits for investments, a Luxembourg taxpayer can claim a credit equal to 18 percent of qualifying investment costs and operating expenses in the context of a digital transformation or ecological and energy transition project and to 12 percent of qualifying new investments.

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Overview of R&D incentives

The Luxembourg IP box regime provides for an 80 percent exemption from Luxembourg CIT and Municipal Business Tax (MBT) upon fulfillment of certain conditions. Moreover, IP assets that qualify under the regime may benefit from a 100 percent exemption from Luxembourg Net Wealth Tax (NWT).

The investment tax credit (ITC) equals to 18 percent for qualifying investment costs and operating expenses in the context of a digital transformation or ecological and energy transition project and to 12 percent for qualifying new investments.

Definition of R&D

The definition of R&D for Luxembourg tax purposes is generally aligned with the largely harmonized at international-level definition of R&D. Accordingly, R&D is an activity whose main purpose is to acquire new knowledge and to develop new applications based on available knowledge. It is characterized by the fact that it is undertaken in a systematic way, i.e., based on a structured plan that makes it possible to define its purpose and to allocate the necessary human and financial resources to it. Generally, R&D activity is aimed at resolving scientific and/or technological uncertainty.

R&D tax relief

Luxembourg IP regime

To summarize, under the Luxembourg IP regime, net eligible income related to IP activity (for example, royalties, gain on sale or transfer of IP, IP related income that is embedded in the sale price of products or services) can benefit from an 80 percent exemption from CIT and MBT upon fulfillment of certain conditions.

The Luxembourg IP regime has been designed on the basis of the OECD BEPS Action 5, a basic element of the so-called “nexus approach.” The nexus approach uses the actual expenses for R&D activity as a proxy (the “nexus ratio” or, in other words, the ratio of the qualifying IP expenses compared to the overall IP expenses) to determine which proportion of the overall IP income may benefit from the 80 percent exemption. Typically, the nexus ratio should be 100 percent when the taxpayer fully carries out the R&D activity on its own.



The taxpayer must pay attention to the structure of the costs in relation to its IP investment to the extent that non-eligible costs may reduce the nexus ratio, which could result in a higher taxable income. In other words, if part of the investment includes acquiring an IP asset that has been already developed by another party (third or related) or if the taxpayer outsources R&D activities to a related party (please note that outsourcing to a third party is an eligible expense), then this investment structure might not be able to benefit in full from the IP regime.

However, it is important to note that Luxembourg has opted to include a mechanism in order not to penalize the taxpayers that did structure their IP investment with some parts of the acquired or related-party outsourced IP. Under this mechanism, the regime offers up to a 30 percent uplift of the eligible expenses to “compensate” for the exclusion of these costs. That way, the nexus ratio is prevented from falling to a point that would otherwise result in a higher effective tax rate.

Investment tax credit

Under the ITC, taxpayers can benefit from two types of tax credits for investments:

- A tax credit of 18 percent for investment costs and qualifying operating expenses in digital transformation or ecological and energy transition. For tangible depreciable assets, the rate will be 6 percent. This can be explained by the fact that these assets would also be eligible for the tax credit for global investment, which will be 12 percent, therefore bringing the overall rate also to 18 percent. Income from patents and software benefitting from this ITC cannot benefit from the IP box regime.

- A tax credit for “global investment” on specified property is equal to 12 percent of the total acquisition price of the qualifying assets. Please note that tax credit rates are increased to 14 percent for certain types of investments in ecological equipment. For software, the tax credit cannot exceed 10 percent of the corporate tax due for the related tax year, and such tax credit cannot be combined with the benefit of the IP box regime.

The ITC reduces the final CIT due and can be carried forward for 10 years.

Although the ITC in Luxembourg was only recently modernized, it should in its current form not constitute a “Qualified Refundable Tax Credit (QRTC)” for Pillar Two purposes. We understand that the government is currently reviewing this aspect and might take the necessary steps to make further amendments to the ITC law in the near future.

Eligibility requirements

Broadly, the general requirements to benefit from the Luxembourg IP regime are the following:

- The IP income is derived by a qualifying IP asset. This includes almost all the important categories of intellectual property used by taxpayers (i.e., patents and any IP rights equivalent to patents, software protected by copyright, plant variety certificates, and phyto-pharmaceutical products), except notably for IP of commercial character (i.e., trademarks).
- The IP assets must have been constituted, developed, or improved after December 31, 2007, and those assets are the result of R&D activities carried out by the taxpayer, at least partially, on its own in Luxembourg, even though certain exceptions might apply (i.e., IP development activities carried out in another EEA country through a permanent establishment under certain conditions).

The Luxembourg IP box regime may be claimed by any Luxembourg corporate resident carrying out R&D activity in Luxembourg or by a Luxembourg corporate resident having a PE in an EEA country, insofar as the PE does not benefit from a comparable beneficial tax regime in its country of establishment as well as by Luxembourg non-residents carrying out R&D activities through a PE in Luxembourg.

The ITC for digital transformation and ecological and energy transition is generally available to all Luxembourg taxpayers but subject to a specific attestation and certification process.

The ITC for global investment is generally available to all Luxembourg taxpayers investing in depreciable tangible fixed assets, including equipment for R&D activity, other than buildings, physically used in the EU, or the EEA (including software under conditions).

Registration/Claim process

The Luxembourg IP regime and the ITC are requested via the corporate tax returns by taking a corresponding filing position and filling out a specific form.

On top of this, in order to benefit from the application of the ITC for digital transformation and ecological and energy transition, the taxpayer needs to file an application of eligibility with the Ministry of the Economy first in order to receive an attestation of qualification. Subsequently, an annual certificate on the reality of the costs and their compliance with the rules will be granted, which should be attached to the tax return.

Even though it is not a requirement, it is possible to request an advance tax agreement to provide more comfort on the application of the IP regime.

Other grants and incentives

Luxembourg offers other general tax incentives, which are available to R&D activity as well.

Accelerated depreciation

Some types of R&D investments (i.e., investments favoring the protection of the environment, the realization of energy savings, or the creation of employment for workers with disabilities) may benefit from a special depreciation allowance up to 80 percent of the acquisition or production cost of the qualifying assets provided that it is at least EUR2,400 (net of VAT). Note that this allowance may either be taken during the year of investment or one of the following four years or spread equally over these years. Special depreciation may be available regardless of the application of a straight-line method depreciation, which would then be computed on the net acquisition or production cost after deduction of the special depreciation allowance, but it excludes simultaneous depreciation under the declining-balance method.

Expatriate high-skilled employees

A special tax regime is in principle available for inpatriate, high-skilled employees upon fulfillment of certain conditions (to be determined on a case-by-case basis).

Non-tax incentives

Additionally, multiple funding and investments aids for R&D projects and programs exist at the government and institutional level, enabling the companies to profit from aid amounts linked to study of infrastructure costs for example. Just for purpose of example:

- Funding of R&D project and programs with aid amount of 25 percent/35 percent/45 percent (large/medium/small enterprises) for experimental development and 50 percent/60 percent/70 percent (large/medium/small enterprises) for industrial research
- Funding of feasibility studies with aid amount of 50 percent of the study costs
- Investment aid for research infrastructures with aid amount of 50 percent of infrastructure costs
- Aid for process and organizational innovation with aid amount of 15 percent of costs (if the company collaborates with an SME or private research institute, with some extra conditions)
- Financial aid for young innovative enterprises with aid amount of EUR800,000
- Financial aid for innovation clusters with aid amount of 50 percent of experimental development costs.

Please note the above aids are subject to specific conditions that must be assessed on a case-by-case basis.

A bill is currently being discussed in the Luxembourg parliament, which may lead to a rework of the different non-tax incentives for R&D.

Malaysia

Introduction

There are numerous tax incentives in Malaysia to encourage companies and institutions to carry out research and development (R&D) activities. The main R&D incentives are granted in the form of Pioneer Status (PS), Investment Tax Allowance (ITA), double deduction, or tax exemption. In addition to these tax benefits, there are also some forms of R&D grants that are available to eligible companies. Effective January 1, 2021, the single deduction or double deduction incentive is only available for Malaysian tax resident companies.

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Overview of R&D incentives

Company that undertakes in-house R&D approved by the Minister of Finance

Companies may deduct up to 200 percent of the eligible R&D expenditure for approved research projects against their business income. Alternatively, the eligible companies may opt for an ITA of 50 percent on qualifying capital expenditure incurred within 10 years, which can be offset against 70 percent of statutory income.

Companies that make cash contributions or payments for the use of services of approved research institutes/companies, contract R&D companies, or R&D companies

Such companies may deduct up to 200 percent of the eligible R&D expenditure against their business income.

R&D company

An R&D company may be eligible for ITA of 100 percent on qualifying capital expenditure incurred within 10 years, which can be offset against 70 percent of statutory income.

Contract R&D company

PS with full tax exemption on statutory income for five years can be granted to contract R&D companies if the company, at the time of application, has an adequate number of full-time employees and has incurred adequate amount of annual operating expenditure in Malaysia for an activity relating to R&D.

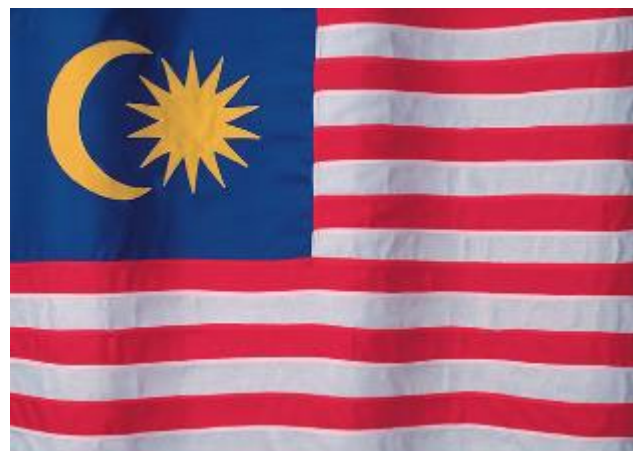
Alternatively, eligible contract R&D companies may claim an ITA of 100 percent on qualifying capital expenditure incurred within 10 years, which can be offset against 70 percent of statutory income.

Principal Hub

An approved Principal Hub may apply for a preferential corporate tax rate of 0 percent, 5 percent or 10 percent for up to 10 years of assessment. Nonetheless, the application period has lapsed (i.e., no later than December 31, 2022).

Investor in a company conducting commercialization of R&D findings and the investee

Investors in companies conducting commercialization of resource-based and non-resource-based R&D findings may be able to obtain a tax deduction equivalent to their investment cost in the investee. In addition, the investee may be eligible for PS (for resource-based R&D findings) or tax exemption (for non-resource-based R&D findings), both of which provide a 100 percent tax exemption on its statutory income for 10 years or 10 years of assessment.



Indirect tax exemption

Exemption from import duty, sales tax, and excise duty on importation of machinery and materials used for R&D activities

Definition of R&D

R&D is defined as any systematic, investigative, and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but it does not include:

- Quality control or routine testing of materials, devices, or products
- Research in the social sciences or the humanities
- Routine data collection
- Efficiency surveys or management studies
- Market research or sales promotion
- Routine modifications or changes to materials, devices, products, processes, or production methods
- Cosmetic modifications or stylistic changes to materials, devices, products, processes, or production methods.

Details of each of the R&D tax relief and its eligibility requirements

Double deduction or ITA (In-house R&D [manufacturing and agricultural industries])

Companies may deduct up to 200 percent of the eligible R&D expenditure in respect to approved research projects against their business income. Applications are to be made to the Inland Revenue Board. For pioneer companies, they may make an election to claim the additional 100 percent of the eligible R&D expenditure in the first basis period in respect to their post-pioneer business for a YA.

Effective January 1, 2021, a double deduction of expenditure for eligible technical services undertaken outside Malaysia is only allowed if the payment for such services is not more than 30 percent of the total R&D expenditure.

Alternatively, the eligible companies may opt for an ITA of 50 percent on qualifying capital expenditure incurred within 10 years. This benefit can be offset against 70 percent of statutory income. Applications are to be made to the Malaysian Investment Development Authority.

Companies may be eligible for a second round of the ITA incentive subject to approval from the Malaysian Investment Development Authority.

Eligibility requirements

Revenue expenditure by an entity for R&D that is directly undertaken for its own business must be approved by the authorities. The R&D activities must also be carried out in Malaysia for the benefit of the Malaysian operations.

Tax exemption—PS or ITA (contract R&D companies and R&D companies [manufacturing and agricultural industries])

Full tax exemption on statutory income for 5 years (contract R&D companies only) if the contract R&D company, at the time of application, has an adequate number of full-time employees and incurred adequate amount of annual operating expenditure in Malaysia for an activity relating to R&D (this shall not apply until June 30, 2021 to a contract R&D company that has been granted a PS before October 16, 2017) or ITA at 100 percent on qualifying capital expenditure incurred within 10 years to be offset against 70 percent of statutory income.

The full tax exemption shall not apply to any income from royalty and other income derived from an intellectual property right if it is receivable as consideration for the commercial exploitation of that right. “Intellectual property right” means a right arising from any patent, utility innovation and discovery, copyright, trademark and service mark, industrial design, layout design of integrated circuit, secret processes or formulas and know-how, geographical indication and the grant of protection of a plant variety, and other similar rights, whether or not registered or registrable.

For R&D companies, if the company opts not to avail itself of the ITA incentive, the related companies can enjoy a double deduction for payments made for the R&D services.

Applications are to be made to the Malaysian Investment Development Authority. Companies may be eligible for a second round of the above incentives

subject to approvals from the Malaysian Investment Development Authority.

Eligibility requirements

A “contract R&D company” provides R&D services in Malaysia only to unrelated companies. An “R&D company” provides R&D services in Malaysia to its related company or to any other company. At least 70 percent of the company’s income must be derived from the R&D activities and at least 50 percent (for the manufacturing sector) or 5 percent (for the agriculture sector) of its workforce has to be qualified personnel performing R&D and technical functions.

Indirect tax exemption on importation of machinery and materials used for R&D activities (in-house R&D or other qualifying R&D activities)

Exemption from import duty, sales tax, and excise duty

Eligibility requirements

Applicable to approved research institutes/companies that purchase specific machinery/materials from overseas/locally to carry out R&D activities

Double deduction (companies that make cash contributions or payments for the use of services of approved research institutes/companies, contract R&D companies, or R&D companies)

Companies may deduct up to 200 percent of the eligible R&D expenditure against their business income.

Eligibility requirements

The research institutes/companies, contract R&D companies, or R&D companies must be granted approved status by the relevant authorities. If payment for the use of services is made to a related R&D company, the payment would not qualify for double deduction if the related R&D company claims the ITA incentive.

Full tax exemption for up to 10 years (approved Principal Hub for R&D work carried out in Malaysia on behalf of its offices or related companies within or outside Malaysia)

Under the Principal Hub incentive, new manufacturing or services companies may apply for a preferential corporate tax rate of 0 percent or 5 percent for up to five years of assessment (may be extended for another five years of assessment). Existing manufacturing or services companies, with or without incentive, are only eligible for a concessionary rate of 10 percent for five years of assessment. Income from the intellectual property rights derived from the qualifying activities is excluded from this incentive. Nonetheless, the application period has lapsed.

Eligibility requirements

The Principal Hub must have a minimum paid-up capital of MYR2.5 million and minimum annual sales of MYR500 million (additional requirement for companies applying for tax exemption on trading income) and meet the requirements for minimum annual operating expenditure and minimum employment. The Principal Hub must also serve and control a required minimum number of network companies and provide specified core income-generating activities, including a minimum number of specified qualifying activities under strategic services, business services, or shared services.

Tax deduction on cost of investment or PS (resource-based R&D findings) or tax exemption (non-resource-based R&D findings) (investment in related companies conducting commercialization of R&D findings)

The investing company (investor) may be able to obtain a tax deduction equivalent to its investment cost in the related company commercializing the R&D findings (investee). However, eligibility for the tax deduction by the investor shall cease in the year of assessment in which the tax relief period for the investee commences.

The investee that is conducting commercialization of resource-based R&D findings may be eligible for PS with 100 percent tax exemption on its statutory income for 10 years.

The full tax exemption shall not apply to any income from royalty and other income derived from an intellectual property right if it is receivable as consideration for the commercial exploitation of that right. "Intellectual property right" means a right arising from any patent, utility innovation and discovery, copyright, trademark and service mark, industrial design, layout design of integrated circuit, secret processes or formulas and know-how, geographical indication and the grant of protection of a plant variety, and other similar rights, whether or not registered or registrable.

The investee that is conducting commercialization of non-resource-based R&D findings may be eligible for a tax exemption of 100 percent of statutory income for a period of 10 years of assessment.

Applications are to be made to the Malaysian Investment Development Authority.

Tax exemption of 100 percent on income derived from commercialization of patent or software copyright up to a period of 10 years (for applications received by MIDA from January 1, 2020 until December 31, 2022) has been proposed in the Malaysian 2020 Budget, but the legislation has yet to be gazetted.

Eligibility requirements

The investor should own at least 70 percent of the investee. The commercialization must be implemented within one year from the date of approval of the incentive issued by the Malaysian Investment Development Authority.

For non-resource-based activities, the application for approval for the project of commercialization shall be made to MIDA no later than December 31, 2025.

Registration/Claim process

Double deduction

A claim can be made after the qualifying R&D activity and eligible expenditure have been approved by the director general of the Inland Revenue Board or once the relevant criteria has been fulfilled, depending on the nature of the deduction being claimed.

Others (ITA, PS, tax deduction on cost of investment, and full tax exemption for 10 years)

A claim can be made after the application has been approved by the Malaysian Investment Development Authority once the relevant conditions have been fulfilled.

Other grants and incentives

Single deduction (expenditure on a qualifying R&D activity)

In the case of an R&D activity that does not qualify for double deduction, consideration may be given to a company to deduct up to 100 percent of the eligible R&D expenditure against its business income, provided that the R&D activity fulfills the definition of R&D and its qualifying criteria.

Grants for R&D activity

Grants received from the government or state government for its R&D activity is not taxable on the hand of the company. Correspondingly, the expenditure subsidized/reimbursed by the said grant is neither tax deductible nor eligible for capital allowance.

Impact of BEPS Pillar Two

We understand that the government is in the midst of looking into reforming the Malaysian tax incentive regime in view that the expected benefits under existing tax incentives will be impacted post-BEPS Pillar Two implementation in Malaysia. At this juncture, no details have been released thus far on credits as well as the introduction of a Qualified Refundable Tax Credit or its equivalent.

Netherlands

Introduction

Promoting R&D activities in the Netherlands is one of the leading principles of the Dutch government, and, for many years, the Netherlands has had several very attractive R&D incentives. These incentives have resulted in the Netherlands being a prime destination for carrying out R&D activities as well as commercializing the intellectual property resulting from R&D activities. One of the key incentives is the Dutch Innovation Box, which is compliant with OECD standards.

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Overview of R&D incentives

Income qualifying for the Dutch Innovation Box is effectively taxed at a reduced CIT rate of 9 percent (achieved through an exemption of qualifying income).

Costs for R&D can be deducted immediately as business cost when incurred.

Super deductions are available for companies making eligible investments in a wide variety of environmentally friendly or energy-saving business assets.

A tax credit against payroll tax is available for those companies that have employees working on qualifying R&D projects.

Definition of R&D

The definition of R&D is not defined by law; however, it follows internationally accepted definitions. To a large extent, the interpretation of what constitutes eligible R&D follows from the R&D Certificate (S&O-verklaring), which is a requirement to apply the tax credit against payroll tax and the Innovation Box.

R&D certificates

R&D Certificates are issued upon request by RVO, a government agency separate from the Dutch tax authorities. Requests must be made in advance of an R&D project, subject to application deadlines.

In order to qualify for an R&D Certificate, the activities should be either:

- Development of products, processes, or software
- Technical and scientific research.

It is important that the item to be developed is technologically innovative for the company itself. Technical innovation means that there is a research component to the project and/or the presence of technical uncertainties or risks concerning the achievement of a result.

R&D tax relief

Innovation Box – General

The Innovation Box applies to income earned from self-developed intangible assets (or a portfolio of intangible assets). The income is subject to a low 9 percent effective CIT rate (compared to the headline rate of 25.8 percent), which is achieved through exempting approximately 65 percent of the Innovation Box income.



Qualifying income can include licensing income (i.e., royalties) but can also include other items such as a portion of product sales or service revenues, cost savings, and capital gains on disposal of the intangible asset. Innovation losses are deductible against the normal Dutch tax rates; however, these losses create a threshold that needs to be set off against qualifying income first before the Innovation Box can be applied again.

Entry conditions

In all cases, the intangible assets (or portfolio of assets) must be the result (in whole or in part) of R&D work for which the company/employer has received a Dutch R&D Certificate (S&O-verklaring).

In addition, those companies that are “large” taxpayers must have an additional “entry ticket” with regard to the intangible asset (or portfolio of intangible assets).

The following additional “entry tickets” for large taxpayers are available:

1. (Pending) patents or a plant breeder’s rights (regardless of whether it is a Dutch or foreign patent)
2. Computer programs (i.e., the intangible assets qualify as software)
3. Biological crop protection products based on microorganisms (since 2017)
4. EU market authorization for human and veterinary medicines, which includes orphan drug designations
5. Additional protection certificates issued by Octrooiencentrum Nederland as continuation of an earlier patent
6. A registered utility model (e.g., a German “Gebrauchsmuster”), if the underlying intellectual property would have been eligible for a patent in the Netherlands
7. Connected intangibles, which mean that the intangible asset is “connected with” one or more of the items listed above.

An exclusive license on one of the items listed above (e.g., for a certain term, use, or geographic area) can also serve as the required second “entry ticket” for large taxpayers. This allows international groups to centralize their intellectual property protection elsewhere in the group while still being able to apply the Dutch Innovation Box.

Grandfathering rules apply for intellectual property for which patents have been granted before January 1, 2017. These will continue to qualify without an R&D certificate.

Large taxpayers

Whether a company is a “large taxpayer” depends on a combined IP income and revenue criterion. A company is not considered to be large when in a five-year period, including the current tax year, the net turnover of the corporate group to which it belongs is below EUR250 million, and in that period, its own grossed up revenue from intangible assets in respect to which it has been issued R&D Certificates is below EUR37.5 million.

Outsourcing of R&D

If the company has outsourced part of its R&D activities (whether within the Netherlands or abroad), it may still benefit from the Dutch Innovation Box; however, the income attributable to the Innovation Box is subject to a reduction following the modified nexus approach. The result of the modified nexus approach is that the Innovation Box tax is only applied on the taxpayer’s own contribution to the development of the intellectual property.

The modified nexus approach is applied through the following formula:

Qualifying R&D costs multiplied by 1.3 over the total R&D costs multiplied by net income from intellectual property

Qualifying R&D expenditure consists of the taxpayer’s own R&D costs and the costs of (direct or indirect) R&D outsourcing to unrelated parties. In other words, R&D costs for outsourcing to related parties are excluded. Housing costs, financing costs, and other costs not directly linked to the R&D work that has resulted in the qualifying IP are not taken into account in the formula. Also, an uplift of 30 percent of the qualifying R&D costs is applied to allow limited outsourcing within the group.

An important feature of the Dutch modified nexus approach is that R&D costs incurred by a Dutch taxpayer as part of an arm’s-length cost contribution or cost-sharing arrangement are not treated as R&D cost for outsourcing to related parties. Participation in such an arrangement should thus not negatively impact the modified nexus approach.

Registration/Claim process

No special procedure exists for applying the Dutch Innovation Box regime. Making an election for it in the CIT return is, in theory, sufficient.

However, in most cases, companies enter into an Advance Tax Ruling with the Dutch tax authorities about their Innovation Box. In this way, a taxpayer obtains certainty on the effects of applying the incentive. An Advance Tax Ruling remains valid for five years, with the possibility to extend after its expiration.

An anonymized summary of each Advance Tax Ruling will be made public by the tax authorities, and information may be exchanged with foreign tax authorities automatically or otherwise under bilateral, EU law-based, or OECD agreement-based rules.

Credit against payroll tax

A tax credit against payroll tax is available to companies with employees working on R&D projects or that otherwise spend money on R&D projects. Companies must apply to RVO, a Dutch government agency independent of the tax authorities, for the tax credit before each R&D project starts.

The incentive is referred to as “WBSO” and covers development projects (i.e., the development of technically new products or product parts, production processes, or computer programs) and technical scientific research.

If RVO grants the incentive, it will issue an R&D Certificate (S&O-verklaring) to the taxpayer stating the amount of the payroll tax reduction.

The incentive covers the following three types of expenditure on qualifying projects:

- iv. Salary cost of employees working on the project
- v. Cost items that are directly attributable to the project
- vi. Fixed asset investments attributable to the project. Investments equal to EUR1 million or more are factored in by way of five installments, each being 20 percent of the invested amount.

The amount of the tax credit equals 40 percent of the first EUR350,000 of qualifying cost (employment related and other) if the company qualifies as a start-up and 32 percent in other cases. The rate is 16 percent on the excess over EUR350,000. The company may set off the amount of the credit against its periodic obligations to remit payroll tax to the Dutch Tax Administration.

Other incentives

No capitalization of development costs

With respect to the development cost of intangible assets incurred in a particular tax year, the taxpayer may elect not to capitalize them but rather take an immediate deduction.

Super deduction for energy-saving business asset (EIA)

Under “EIA” scheme, an additional 40 percent of the invested amount up to EUR149 million can be deducted for CIT purposes. In scope assets are energy saving and new. A list of asset types is published annually as part of these regulations.

Super deduction for environmentally friendly business assets (MIA)

Under the “MIA” scheme, depending on the asset class, an additional 27 percent, 36 percent, or 45 percent of the invested amount can be deducted for CIT purposes. In scope assets are environmental protection—related and new, and a list of asset types is included in the regulations.

Free depreciation scheme for environmentally friendly business assets (VAMIL)

Under the “VAMIL” scheme, 75 percent of the cost of certain investments in new environmentally friendly business assets can be depreciated at will, that is, without observing the general timing and other depreciation constraints that would normally apply to business assets.

Careful planning is recommended in order to achieve optimum results. While technically EIA, MIA, and VAMIL are deductions that are claimed in the annual CIT return, RVO, a Dutch government agency independent of the tax authorities, must be notified of the investments within three months of it having been made.

Thirty percent ruling for inbound expatriates

If a company needs specialists from outside the Netherlands for carrying out its R&D program, the 30 percent ruling may act as an incentive to induce them to work in the Netherlands. Under Dutch tax law, the additional costs of a temporary stay outside the home country (extraterritorial costs) can be reimbursed tax free for a period of five years.

Qualifying employees are deemed to incur extraterritorial costs amounting to 30 percent of their employment income. The employer is therefore allowed to pay 30 percent of the employment income as a tax-free allowance during the first 20 months, 20 percent during the following 20 months, and 10 percent during the last 20 months when the regime is applied.

In order to qualify for the 30 percent ruling, employees must meet certain conditions.

New Zealand

Introduction

New Zealand offers an R&D tax credit. The definition of R&D is broad and inclusive, allowing for both core and supporting activities to qualify under the tax credit.

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Overview of R&D incentives

Organizations can avail themselves of a 15 percent tax credit on eligible expenditure between NZD50,000 and NZD120 million.

Internal software development has been capped at NZD25 million per annum.

Definition of R&D

The activity follows a systematic approach:

- Has a material purpose of creating new knowledge or new or improved processes, services, or goods
- Has a material purpose of resolving scientific or technological uncertainty
- The knowledge required to resolve the uncertainty must not be publicly available nor deducible by a competent professional in the field.

R&D tax relief

Amount of R&D tax credit

The credit can be cashed out up to the amount of the organization's payroll taxes. Any excess credit can be carried forward into the next year.

R&D expenditure can be capitalized to intangible assets or expensed as both are eligible under the tax credit. A limited concession is available for costs capitalized to tangible depreciable assets.

Eligibility requirements

- Must perform the R&D activity in New Zealand or through an R&D subcontractor with fixed establishment in New Zealand
- Have a minimum of NZD50,000 in eligible expenditure on R&D, capped at NZD120 million per annum.

Registration/Claim process

Introduced in the 2019–2020 General Approval Applications (R&D descriptions) must be filed within five weeks after the end of the tax year; however, organizations are encouraged to file this information early in the year in order to receive advance approval of R&D projects. General Approval Applications can apply for up to a three-year approval term.

The costing information is still due at the end of the tax year and has approximately the same deadline as the organization's income tax return, i.e., the projects can be approved earlier, but the funding will only be received until after the return is submitted.



For organizations with more than NZD2 million of R&D expenditure, it is possible to opt out of the default method and elect the Significant Performer regime. In this case, the claimant provides information on the systems and processes that are in place to capture R&D activities up front. While this information is being reviewed by the authorities, meetings with the organization's R&D team are conducted by the authorities to assess if the organization is conducting eligible R&D. If the authorities consider the systems and processes in place are robust, the organization will receive criteria and methodologies approval. After the end of the tax year, organizations in the Significant Performer regime submit the R&D expenditure information along with a copy of the criteria and methodologies approval to an independent third-party reviewer, which could be their auditors. The reviewer then performs an agreed-upon procedures review on the information provided to assess if the organization has met the requirements in the criteria and methodologies approval. The organization is provided with a certificate by the reviewer and a report outlining their findings, which is then submitted to the authorities. If there are no significant issues, the tax credit is released.

Other relevant information

Eligible expenditure

- Depreciation for items used in performing R&D
- Expenditure or loss on acquiring goods or services used in performing R&D
- Amounts paid to employees performing R&D
- Apportioned overheads
- Contracted R&D
- Up to 10 percent of eligible expenditure can be incurred overseas.

R&D loss tax credit

Independent of the 15 percent R&D tax incentive, the R&D loss tax credit allows businesses to cash out their R&D-related losses. The maximum that can be cashed out is the lesser of the following:

- Net loss multiplied by 28 percent
- Total R&D spend multiplied by 28 percent
- Total R&D labor expenditure multiplied by 1.5 x 28 percent
- NZD476,000 in the 2019–2020 tax year and NZD560,000 for subsequent years.

Businesses can qualify for both schemes concurrently under the current legislation.

The cashed-out losses are repaid as follows:

- With future income tax payments as the cashed-out losses are no longer available
- If the IP from the R&D projects is sold
- If the company is liquidated
- If there is a greater than 90 percent change in shareholding.

Other grants and incentives

The New Zealand government also provides grants and support through the following agencies.

Callaghan Innovation

Provides funds for enabling innovation, including scholarships, and grants as outlined below.

New to R&D grant (precursor to R&D tax incentive)

Supports businesses at the “getting started” stage of their innovation development once a business has been formed around an idea or concept and requires initial R&D funding to establish a path toward commercial success.

Funding is cofunding a maximum total combined costs of NZD1 million (i.e., 40 percent–\$400,000), covering both skills and capability building and R&D project costs.

R&D Experience Grant

Fully funds businesses to employ tertiary-level students and full-time interns over their summer break and help develop R&D/innovation-based career.

R&D Career Grant

Fully funds businesses to employ PhD degree and master’s degree graduates for six months and provide the students first steppingstone toward a career in R&D.

Ārohia Evidence Grant

A potential precursor Ārohia Trailblazer Grant, this grant is designed to prepare businesses as they establish their R&D/innovation capability.

The funding is at \$1:\$1 to a maximum of NZD25,000, can be used for a range of activities, including customer research, professional advice, purchasing reports, pitch preparation, and demonstration models.

Ārohia Trailblazer Grant

Designed to support the innovative businesses at the “getting ready to go-to-market” stage of their innovation’s journey.

Funding, is cofunding up to 30 percent of costs to a maximum of NZD4 million, can be invested into a broad range of activities including setting up new infrastructure and production capabilities, and building teams with the right skills, through to building demonstration models and marketing.

Deep Tech Incubators

Delivered in partnership with four of Aotearoa New Zealand’s leading incubators and venture capital firms, all highly experienced in the Deep Tech space and with their own specializations to achieve product and business commercialization.

Funding comprises NZD1 million minimum—NZD750,000 of which is a repayable grant.

Ministry of Business, Innovation, and Employment

Te Punaha Hihiko Fund

Funds Maori-led research, science, and innovation (RSI), aimed at strengthening deployment of RSI investment toward communities and rohe/takiwa where Maori knowledge is practiced and where experts and practitioners are based.

New Zealand Growth Capital Partners

Aspire NZ Seed

Invests directly into early-stage New Zealand technology start-ups at proof of concept, seed, and early expansion investment stages.

Elevate NZ Venture Fund

An NZD300 million government-funded fund of funds, investing into venture capital funds; aimed at filling the Series A and B capital gap for high-growth New Zealand tech companies.

Market Development

Sponsored series of initiatives and programs aimed at filling the gaps and encourage capability building for both founders and investors.

Energy Efficiency and Conservation Authority

Cofunding and support

Offers programs to accelerate the uptake of energy-efficient technologies and the use of renewable sources of energy with cofunded contributions covering a percentage of project's cost.

Ministry of Primary Industries

Sustainable Farming Fund (SFF)

Up to NZD75 million is available annually to support applied research and projects led by farmers, growers, and foresters.

Two categories of funding are "Partnerships" and "Grants."

Funding investment is aligned to the length and complexity of project. Minimum coinvestment requirements apply, but there is no cap on government investment per project.

New Zealand Trade & Enterprise

Supports international expansion, including market research, networking, and grant funding.

Private sector support for R&D and innovation is available from the following organizations/fund:

Spark Innovation Fund

Designed for supporting new and innovative technologies or services offered by Spark, the Spark Innovation Fund supports initiatives using advanced digital technologies such as AI, automation, computer vision, IoT, 5G, and extended reality.

Westpac-Government Innovation Fund

Provides early-stage funding and support to businesses to develop ideas. With an understanding that early-stage ventures are uncertain and carry risk, WGIF's risk management approach includes a risk appetite for failure and stress-testing proposals, partnering with innovators, adopting a portfolio investment strategy, and conducting moderated and staged due diligence.

AGMARDT

Invests in initiatives to encourage research capability and collaboration and to develop emerging leaders in New Zealand's food and fiber sector.

Agribusiness Innovation Grant (under and over NZD30,000)

To promote development of innovative solutions to assist with transformational change within agribusiness value chains.

Capability Development Grant (group and individual)

To develop a pipeline of talented individuals ready to take on leadership roles and drive innovation in New Zealand's food and fiber sector.

Norway

Introduction

In 2002, the Norwegian government introduced a program designed to stimulate industrial research and development in Norway called “SkatteFUNN.” The SkatteFUNN incentive is a tax credit scheme that grants credits against tax and national insurance contributions up to a combined rate of 19 percent of R&D project costs. In addition, partially state-owned organizations and government agencies, such as Innovation Norway (Innovasjon Norge), provide financial support by grant of cash and loans with favorable terms for R&D qualifying projects.

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General overview

The Norwegian R&D scheme provides different incentives that firms can apply for, such as:

- Tax credits
- Cash grants
- Loans
- Financial support
- Reduced social security contributions.

The Norwegian General Tax Act includes regulations regarding tax incentives known as SkatteFUNN to support R&D project costs. Under the SkatteFUNN scheme, any type of business enterprise engaged in certain R&D activities may apply to the Research Council for support for R&D projects. Support is granted in the form of a tax deduction and, in certain cases, direct funding to the company.

Definition of R&D

Somewhat simplified, an R&D project is defined as a project with a clear objective and a defined scope. The objective of the R&D project should be obtaining new knowledge, insights, or skills that are useful for developing new or improved products, services, or production methods.

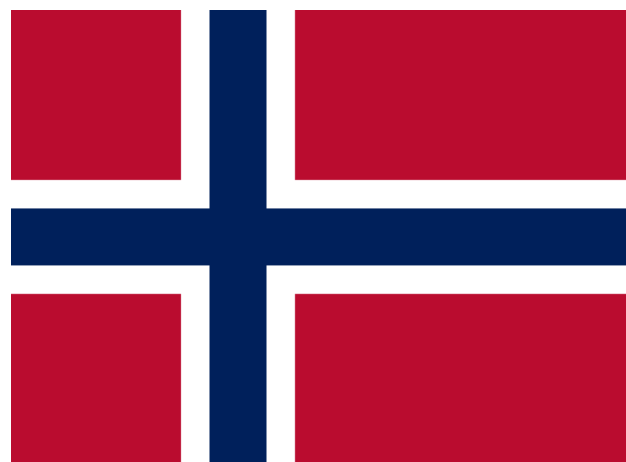
Overview of R&D incentives – SkatteFUNN eligibility requirements

SkatteFUNN applies to taxpayers engaged in business activities in Norway. Taxpayers from all industries may apply. It is not a requirement for the business to be profitable to apply for R&D incentives. If the tax credit for the R&D expenses is greater than the amount of tax payable, the remaining will be granted as a direct payment.

There are no restrictions as to the number of employees or turnover to apply for R&D benefits. Furthermore, there are no restrictions in relations to the topic of an applicable R&D project. The project must, however, have a clear objective and a defined scope. Further, the objective of the R&D project must be to develop new or improved products or be about improving service or production processes that will be useful for the business.

In general, businesses should be eligible to apply for R&D schemes if the answer to either (1) and (3) or (2) and (3) describes the project.

1. Your business is in the process of developing a new or improved product, service, or production process.



2. The goal of the project is to provide an enhanced experience and functionality for the users of a common-known service.
3. It is certain or possible that the project will require systematic research and/or development.

Registration/Claim process

In order for a company to benefit from a tax deduction, or receive funding from SkatteFUNN, the Research Council (Norges forskningsråd) must approve the application for the project.

All SkatteFUNN projects are approved per calendar year, which means that a company may claim tax credit for approved project costs for the whole calendar year, even if the application was approved after initiation of the project.

The Research Council guarantees that all SkatteFUNN applications submitted on or before September 1 will be processed within the current year. If the application is submitted after September 1, and the approval process is not finalized until the following year, the project will not be approved for the year the application was submitted.

When an R&D project is approved, certain administrative requirements apply. One requirement is that the taxpayer must report certain information about the project in the annual CIT return.

Based on the SkatteFUNN incentive, a taxpayer may be granted credit against tax and national insurance contribution for 19 percent of R&D project costs. A taxpayer may submit multiple SkatteFUNN applications. However, the incentive is limited to NOK25 million in total R&D expenses for all projects combined per calendar year.

If the taxpayer is receiving other government aid, in addition to SkatteFUNN, the total amount of government aid must be in line with the EEA Agreement and ESAs state aid guidelines.

Other grants and incentives

Innovation Norway supports companies in developing their competitive advantage and to enhance innovation. The organization is the Norwegian Government's instrument for the innovation and development of Norwegian enterprises and industries. It is possible to apply for financial support by grant of cash and loans with favorable terms for R&D qualifying projects.

Enova SF was established to contribute to the restructuring of energy use and production. The company is owned by the Ministry of Climate and Environment and has a mandate that sharpens Enova as a climate instrument. Enova provides financial support for energy and climate measures in enterprises.

The Research Council allocates NOK11 billion annually for research and innovation. There are some main application deadlines per year as well as a number of funding schemes with open-ended deadlines. Applicants compete with one another for funding.

EFTA and EEA grants and funding for a large variety of topics, ranging from climate change and energy to cultural cooperation and civil society support.

Exemption for undertakings in difficulty

Companies in financial difficulty cannot receive SkatteFUNN, based on EEA state aid regulations. This means companies that meet any of the criteria for being an "undertaking in difficulty" as stated in the EU/EEA regulations cannot receive SkatteFUNN incentives. For example, if a company that is not an SME for the past two years has had a book debt-to-equity ratio greater than 7.5 and EBITDA interest coverage ratio below 1.0, the company will be deemed an "undertaking in difficulty." Generally, the assessment of whether a company is an "undertaking in difficulty" is based on the annual accounts or income statement.

Papua New Guinea

Introduction

The Papua New Guinea Income Tax Act contains specific provisions that allow for an immediate and/or accelerated tax deduction for R&D expenditure.

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Overview of R&D incentives

A standard R&D deduction continues to apply in cases where certain conditions are met.

Definition of R&D

Scientific research is defined as any activities in the fields of natural or applied sciences for the extension of knowledge.

R&D tax relief

Tax deduction for R&D expenditure (all companies)

Taxpayers are entitled to a full tax deduction for payments to approved research institutions and capital expenditure on scientific research other than buildings and plant. Capital expenditure on buildings may be claimed as a tax deduction over three years starting in the year of first use, while the tax depreciation rate is set at 33.33 percent straight line for plant used for scientific research.

Eligibility requirements

Tax deduction for R&D expenditure

Prior to January 1, 2014, taxpayers who incurred certain expenditure on scientific research under an approved R&D plan could avail of an increased 150 percent tax deduction over the standard deduction available. However, this incentive was revoked from January 1, 2014. There currently remains a backlog of claims waiting to be assessed by the R&D committee. To address this backlog, the 2019 budget introduced measures to empower the Commissioner General to form a quorum to determine the historical claims.

Although the 150 percent incentive deduction has been revoked, the standard deduction continues to apply where certain conditions are met. A tax deduction is available for expenditure on scientific research that is not deductible under any other provision of the Income Tax Act being:

- Payments to an approved research institution for scientific research
- Capital expenditure on scientific research undertaken by the taxpayer expenditure on research buildings.

Registration/Claim process

Claiming the deduction

The claim for the tax deduction is made in the annual tax return. All claims are subject to review by the Internal Revenue Commission (IRC) as part of the normal tax assessment process.



Other relevant information

For the purposes of the deduction, an “approved research institute” means any university, college, institute, association, or organization that is approved in writing for the purposes of this section by the minister as an institution, association, or organization for undertaking scientific research that is or may prove to be of value to the state.

Peru

Introduction

Peru offers very attractive R&D incentives. The most relevant is established by Law No. 30309, which offers an additional expense deduction to taxpayers that spend on scientific research projects, technological development, and technological innovation.

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Overview of R&D incentives

Law No. 30309 offers an additional expense deduction to taxpayers that spend on scientific research projects, technological development, and technological innovation.

This rule allows taxpayers to deduct additional expenses on scientific research projects, technological development, and technological innovation.

Firstly, it allows deduction of expenses for taxpayers whose net income does not exceed 2,300 tax units (2,300 UIT, for its acronym in Spanish, approximately USD3,201,351 at a PEN3.7 exchange rate), whether or not they are linked to the company's line of business. This occurs in the following proportions:

- Two hundred forty percent: If the project is carried out directly by the taxpayer or through scientific research, technological development, or technological innovation centers domiciled in the country
- One hundred ninety percent: If the project is carried out through scientific research, technological development, or technological innovation centers not domiciled in the country.

However, for taxpayers whose net income exceeds 2,300 tax units (2,300 UIT) and who make the expenses in question regardless of the line of business. This occurs in the following proportions:

- One hundred ninety percent: If the project is carried out directly by the taxpayer or through scientific research, technological development, or technological innovation centers domiciled in the country
- One hundred sixty percent: If the project is carried out through scientific research, technological development, or technological innovation centers not domiciled in the country.

Eligible activities

Taxpayers with respect to scientific research, technological development, and technological innovation projects that begin in 2016 will be entitled to the deductions referred in this law, provided that no deductions are made on them under Income Tax Law.

To take the benefit, the following requirements must be met:

- Scientific research, technological development, and technological innovation projects must be qualified as such by public or private entities that, considering the nature of the project, establish the regulations



- The project must be carried out directly by the taxpayer or through scientific research, technological development, or technological innovation centers. In both cases, they must be authorized to carry out the projects by one of the entities established by the regulations, which indicates the validity period of the authorization.
- To obtain authorization, they must have researchers or specialists, as appropriate, who are registered in the national directory of professionals in the field of science, technology, and innovation managed by the National Council of Science, Technology and Technological Innovation (CONCYTEC) as well as with materials dedicated to the project that meet the minimum requirements established by the regulations.
- Taxpayers who access this tax benefit keep control accounts for each project, which must be duly supported
- The result of the technological development or technological innovation project must be registered with the National Institute for the Defense of Competition and the Protection of Intellectual Property (INDECOP), if applicable.

Expense deduction

The deduction of expenses on scientific research, technological development, and technological innovation projects will be made from the year in which the qualification is obtained, as they occur, in accordance with what is established in the regulations.

However, expenses incurred before the project was qualified will be deducted in the year in which the qualification is obtained. In no case may disbursements that form part of the value of intangibles of unlimited duration be deducted.

The taxpayer's additional deduction of 140 percent, 90 percent, or 60 percent cannot exceed in each case the annual limit of 500 tax units (500 UIT, equivalent approximately USD695,945 at a PEN3.7 exchange rate).

Registration/Claim process

These projects must be qualified as such by CONCYTEC, in accordance with Article 3 of the Regulation of Law No. 30309. The qualification of the project is carried out within a period of 45 business days, in accordance with the established by the regulation.

Philippines

Introduction

The Philippines offers an R&D deduction for eligible R&D expenditure as well as a reduced income tax rate. The Philippines has recently introduced changes in the R&D tax incentive regime.

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Overview of R&D incentives

Regional operating headquarters (ROHQs) are taxed at the rate of 25 percent Regular Corporate Income Tax (RCIT) or 2 percent Minimum Corporate Income Tax (MCIT).

MCIT is hereby imposed on a taxable corporation, beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum income tax is greater than the computed regular income tax.

Definition of R&D

Under Section 293(N) of the National Internal Revenue Code (NIRC), as amended, R&D refers to experimental or other related projects or activities:

1. Whose outcome cannot be known or determined in advance on the basis of current knowledge, information, or experience but can only be determined by applying a systematic progression of work:
 - i. Based on principles of established science
 - ii. Proceeds from hypothesis to experiment, observation, and evaluation, and leads to logical conclusions.
2. That are conducted for the purpose of generating new knowledge, including new knowledge in the form of new or improved materials, products, devices, processes, or services.

Under the NIRC and the 2022 SIPP, R&D is covered under Tier III.

Tax deduction for R&D expenditure (individuals and companies)

R&D tax relief

Under the Philippines' National Internal Revenue Code (NIRC), the taxpayer may claim R&D expenditures as ordinary and necessary expenses.

However, the taxpayer may elect to treat the R&D expenditures as deferred expenses if these are chargeable to a capital account but are not chargeable to property of a character that is subject to depreciation or depletion.

Eligibility requirements

Individuals must derive business income.

Individuals and corporations must be subject to the regular income tax rate (graduated rates for individuals with 35 percent as top rate and 25 percent for corporations) based on taxable income.



Special Corporate Income Tax (SCIT)

SCIT equivalent to 5 percent for Export enterprises

Under Section 294(B) of the NIRC as amended, export enterprises may avail of the 5 percent SCIT based on the gross income earned, in lieu of all national and local taxes subject to the conditions set under the NIRC, at the option of the export enterprise.

Eligibility requirements

Under Section 295(B) of the NIRC, as amended, the export enterprise has the option to the avail of the SCIT or the enhanced deductions, but in no case shall the SCIT be granted simultaneously with the enhanced deductions.

Tax enhanced deduction

Additional 100 percent deduction on R&D

Under Section 294(C)(3) of the NIRC, as amended, an additional 100 percent deduction may be availed on R&D expense incurred in the taxable year for export enterprise and domestic market enterprise.

Eligibility requirements

Under Section 295(B)(3) of the NIRC, as amended, the additional 100 percent deduction on R&D applies only to R&D directly related to the registered project or activity of the entity and limited only to local expenditure incurred for salaries of Filipino employees and consumable and payment to local R&D organizations.

Further, under Section 296(B) in relation to Section 294(C)(3) of the NIRC, as amended, the period for availment of the additional 100 percent deduction on R&D for exporters is 10 years and 5 years for domestic market activities.

Other relevant information

Registration requirements for ROHQs

Before registering with the Securities and Exchange Commission to set up a ROHQ, the foreign business entity must secure a favorable recommendation from the BOI.

Registration requirements for R&D activities registered with the BOI

Before approving the application for registration of R&D activities, the BOI is empowered to require the submission of the endorsement or permit issued by the applicable government agency.

Further, for registrable R&D activities under 2022 SIPP, the application for registration must be accompanied by an endorsement from the Department of Science and Technology (DOST), Department of Trade and Industry (DTI) – Competitiveness and Innovation Group (CIG), or any other institutions as maybe identified by the BOI Board.

Other grants and incentives

Full deductibility of donations

Under the NIRC, individuals and corporations subject to the regular income tax rate (graduated rates for individuals with 35 percent as top rate and 25 percent for corporations) may claim full deductibility of donations to nongovernment organizations that are nonprofit domestic corporations organized and operated exclusively for certain types of purposes, including scientific or research purposes.

Exemption from donor's tax

Under the NIRC, exemption from donor's tax is granted to gifts in favor of certain institutions such as a research institution or organization.

Poland

Introduction

Poland offers a very attractive system of support for companies conducting R&D works. It is possible to benefit from tax deductions and direct grants. New investors as well as existing companies are eligible for R&D support in the investment and operational stages of their activity.

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Overview of R&D incentives

Since 2016, Poland offers tax incentive designed to encourage companies to invest in R&D—additional setoff of R&D costs against taxable income up to 200 percent R&D tax relief.

Definition of R&D

The Polish definition of R&D is generally in line with the EU legislation and the OECD Frascati Manual, which defines R&D as activities that comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, and the use of this stock of knowledge to devise new applications. There are three stages of R&D work:

- Fundamental research
- Industrial research
- Experimental development.

R&D tax relief

In Poland, companies have the possibility to take advantage of tax bonuses for R&D works. The R&D tax relief is given in the form of an additional setoff of eligible costs against taxable income in the amount of:

- Two hundred percent of salaries of employees engaged in R&D activities (100 percent from 2018 to 2021)
- One hundred percent of other related expenses on R&D activities (e.g., depreciation, materials, and R&D services from scientific units).

Additionally, Poland allows special tax deductions for entities having the R&D center status, which is R&D tax relief of 200 percent for all cost categories and, additionally, for R&D services from any external entity.

Eligibility requirements

In order to be eligible for R&D incentives in Poland, enterprises must fulfill certain requirements. In every case, the projects have to meet the definition of R&D works.

In order to utilize R&D tax relief costs for R&D, activities have to be shown separately in the accounts. Eligible costs must be listed in the tax return.

R&D center status can be established if net revenues will reach PLN2.5–5 million, where at least 70 percent of those revenues result from R&D services or at least PLN5 million, where at least 20 percent of those revenues result from R&D services.



Registration/Claim process

Tax deductions are claimed each year in tax returns. In order to obtain an R&D direct grant, the enterprise must file an application for cofinancing during an open application round.

Intellectual Property (IP) Box

Implemented in 2019, preferential taxation of income earned from intellectual property rights (IP BOX and Innovation Box), together with incentives already in force, allows entrepreneurs to receive financial support at every stage of the innovation process, from idea to commercialization.

The “Innovation Box” should be regarded as a complementary element closing the chain of incentives. It is aimed at supporting entrepreneurs developing new or improved products, processes, and technologies, enabling them to derive additional tax benefits from R&D and implementation of its results.

The Innovation Box allows a preferential 5 percent income tax rate to income earned from intellectual property rights. The higher the involvement of the taxpayer in producing, developing, or improving the innovative solution (i.e., in R&D activity concerning the intellectual property right), the greater the potential tax benefit is. The preferential rate applies throughout the period of intellectual property rights protection. The Innovation Box is complementary to the possibility of tax deduction due to the R&D tax relief.

Other grants and incentives

Grants may be available up to 80 percent of the R&D costs. Entities carrying out R&D projects in Poland may receive grants from, among others, the following sources:

- EU Structural Funds designated for Poland
- Polish R&D Programs
- Horizon Europe.

In the case of R&D centers operating in the special economic zone, income from R&D activity is exempt from corporate tax up to state aid-level limits.

When establishing/expanding an R&D center in Poland, it is possible to apply for incentives in Poland (cash grants and corporate and real estate tax exemption) up to 70 percent of investment/two years' employment cost.

Additional tax incentives are also available for entities conducting R&D activity, e.g., income tax relief for innovative employees performing R&D activities and company income tax relief as a result of implementing trial production of R&D results. It is possible to combine various forms of abovementioned incentives in order to take full advantage of the incentive opportunities in Poland; however, state aid rules have to be observed.

Portugal

Introduction

The Portuguese Authorities are highly committed in the promotion and attraction of new investment projects to Portugal, and for this reason, several tax and financial measures are available in Portugal to boost the competitiveness and promote the entrepreneurship of the national business structure.

Since R&D activities are recognized as a fundamental key factor for a sustainable economic growth, the Portuguese Government has established highly competitive incentives regimes for these activities in which stands out the R&D Tax Incentives System—the “SIFIDE.”

The SIFIDE promotes the development of R&D activities and the generation of new knowledge through the attribution of a tax credit between 32.5 percent and 82.5 percent of the eligible R&D annual expenses.

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The SIFIDE tax credit

SIFIDE intends to promote the development of R&D activities in Portugal through the attribution—to Portuguese companies—of tax credit between 32.5 percent and 82.5 percent of the eligible R&D annual expenses incurred.

Definition of R&D

The R&D definition underlying SIFIDE establishes that R&D comprises creative and systematic work undertaken in order to increase the stock of knowledge and to devise new applications of available knowledge.

R&D tax credit

The SIFIDE tax credit may correspond to the sum of:

- A base tax credit equal to 32.5 percent of the R&D qualifying expenses for the relevant year, plus
- An additional tax credit equal to 50 percent of such expenses' increase in comparison to the average of the expenses incurred in the two previous years (up to EUR1.5 million).

The tax credit is deductible to the CIT computed in the tax period in which the expenses are incurred or, if insufficient, the unused tax credit may be carried forward for 10 FYs.

Qualifying expenses

The main qualifying expenses are:

- Expenses with the acquisition or development of new fixed assets necessary and directly related to R&D activities (except buildings and land)
- Expenses with degreed employees directly involved in R&D activities (20 percentage points increase for expenses with PhD degree employees)
- Operating expenses related to the R&D activities, up to 55 percent of the expenses with employees directly involved in R&D activities accounted for as remuneration, wages, or salaries)
- Expenses with R&D activities provided by public entities, public utility entities, and R&D entities recognized by the Portuguese Government
- Expenses with the acquisition of patents allocated to R&D activities.

Expenses with projects developed exclusively on behalf of third parties are not eligible under this tax credit. An extensive analysis is advisable in respect to the applicability of this rule.



Eligibility requirements

In order to be able to make use of the tax credit, the qualifying investing company (not taxed under the indirect methods) must include in the documentation file:

- A compliance statement, issued by the competent authorities (Agência Nacional de Inovação, according to the legislation in force), concerning the qualifying R&D expenditure effectively incurred
- An annual official statement confirming the appropriate payment of taxes and social security contributions.

The implementation of idea management systems may help monitor R&D activities and, consequently, ensure a complete diagnosis of the R&D annually performed, impacting directly in the optimization of the SIFIDE tax credit to be granted.

R&D expenses claimed under the SIFIDE tax credit may not be used cumulatively with any other similar tax incentives regimes.

Registration/Claim process

An application form should be submitted before the end of the fifth month after the fiscal year closure, for the appreciation of the competent authorities. The SIFIDE application should include an extensive description of the R&D projects developed in the year and a detail of the corresponding expenses incurred in that specific year (for multiannual projects, the application procedure should be repeated on an annual basis considering the activities and expenses incurred in each year).

R&D financial grants (Portugal 2030)

Headline rate

The Portugal 2030's R&D incentive aims to support the development of R&D projects designed to create new (or improve existing ones) products, processes, and/or services.

For this purpose, the competent authorities attribute a cash grant, with a base rate of 25 percent that may be increased up to 80 percent for SMEs or up to 70 percent for non-SME entities.

Definition of R&D

The R&D definition underlying Portugal 2030 establishes that R&D comprises industrial research (TRL 2 up to 4) and experimental development activities (TRL 5 up to 8), aimed at the creation of new products, processes, and/or services, or at the improvement of existing ones.

R&D cash grant

The cash grant attributed may correspond to the following:

- a. In case of SME – up to 80 percent of the R&D qualifying expenses
- b. In case of non-SME – up to 70 percent of the R&D qualifying expenses.

The exact incentive rate to be applied in each project depends on several factors, such as the nature of the activities performed (industrial research and experimental development, the company's dimension, the plan for the dissemination of the R&D results, among other factors).

The attribution of the cash grant will be based on the presentation of payment forms by the companies.

Qualifying expenses

The main qualifying expenses are:

- Personnel expenses incurred with the technical staff dedicated to the R&D project
- Acquisition of raw materials consumables and components necessary for the construction of pilot and/or experimental and/or demonstration facilities, as well the construction of prototypes
- Acquisition of services from third parties (including technical scientific and consultancy assistance)
- Acquisition of scientific and technical instruments, equipment, and software
- Expenses with the promotion and dissemination of the R&D project's results.

Please note, in case of specific calls, the simplified cost method will be applied, and subsequently, only the

personnel expenses will be considered as qualifying expenses.

Eligibility requirements

The main access and eligibility conditions are (not exhaustive) as follows:

- Not be a "company in difficulty" in accordance with the official definition of the EU
- Demonstrate a balanced economic and financial situation—that is, achieve a minimum financial autonomy ratio (≥ 20 percent for non-SME; ≥ 15 percent for SME)
- Have an official statement confirming the appropriate payment of taxes and social security contributions.

Most of Portugal's R&D incentives systems are only applicable to SME and small mid-cap entities. Non-SME (large companies) may only apply for a contractual regime regarding R&D projects of special interest (that is, with qualifying expenses exceeding EUR10 million), or regarding R&D strategic projects recognized by the Portuguese Government or integrated R&D and innovation projects in consortium with SME.

Registration/Claim process

The companies must submit an application form to the Portuguese Authorities under specific calls (that will open throughout this Program's execution). The R&D project may only start after the submission of the application form.

The application should include an extensive description of the R&D project, the detail of the corresponding expenses expected to be incurred (throughout the timeline of project's execution plan), and the financial statements prospected by the company for the upcoming years.

Each specific call may define any further specific access requirements.

Patent box regime

Headline rate

This patent box regime allows a tax exemption of 85 percent on income derived from the sale or temporary exploitation of certain registered intellectual property elements such as patents, industrial models and drawings, and copyrights on computer programs (software).

It may lead to an effective taxation of the respective income of approximately 3 to 4 percent (the CIT general rate in Portugal is currently 21 percent).

This regime does not require any submission or approval from the Portuguese Tax Authorities.

Eligibility requirements

The main criteria of eligibility, in the sphere of the assignee/user are:

- The use of the intellectual property rights in pursuit of a commercial, industrial, or agricultural activity
- The results of the use of the intellectual property rights by the assignee do not materialize in the delivery of goods or provision of services that generate tax-deductible expenses for the assignor or for a company that is part of the same group of companies as the assigning entity with which it has a special relationship
- The assignee is not a resident entity in a country, territory, or region subject to a clearly more favorable tax regime listed in an order issued by the member of the Portuguese Government responsible for the area of finance.

Regarding the assignor (intellectual property owner and taxpayer), the Company must maintain accounting records organized in such a way that eligible income can be clearly distinguished from other income, and that allow the identification of expenses and losses incurred or supported for the execution of R&D activities directly attributable to the right being transferred or temporarily used.

The regime does not apply to income that comes from ancillary services included in contracts, meaning that such income must be separated from income derived from the transfer or temporary use of the respective rights.

Calculation of the patent box deduction

The calculation is as follows:

1. The income and revenue earned in a certain tax period are deducted from the expenses or costs incurred in that same period for carrying out R&D activities
2. This result is subtracted from the accumulated negative balance between development income and gains, recorded in previous tax periods.

Nevertheless, the deduction to the taxable profit, which results from the operations mentioned above, cannot exceed the amount that results from the application of the formula: $QE/TE \times TI \times 85$ percent, where:

- QE = “Qualified expenses incurred to develop the protected asset” → expenses and losses with R&D activities carried out by the taxable person or contracted to unrelated third parties, which have resulted in or benefited the right in question. The QE is increased by 30 percent up to limit of the TE amount.

- TE = “Total expenses incurred to develop the protected asset” → QE + expenses and losses with R&D activities contracted to related third parties + expenses related to the acquisition of the right
- TI = “Total income derived from the asset” → the income considered shall be net of costs with R&D activities carried out for the generation of the intellectual property.

Other grants and incentives available in Portugal

Other grants and incentives

Innovation incentives are also recognized by the Portuguese Government as strategic in the attractiveness of new investment projects to Portugal and in fostering national competitiveness.

In this sense, companies may also apply for the financial incentives established under Portugal 2030 for Productive Innovation, corresponding to a cash grant up to 50 percent of the qualifying expenses (mainly, acquisition of productive machinery and construction). The incentive rate will be mostly dependent on the investment location and company dimension (SME/non-SME).

Additionally, Portugal 2030 foresees other financial incentives systems, of which we highlight the following:

- For the qualification and internationalization of SME, corresponding to a cash grant of 50 percent of the eligible expenses (for specific expenses this incentive rate may be increased)
- For decarbonization of the companies, corresponding to a cash grant up to 100 percent of the qualifying expenses.

The tax and financial incentive regimes available in Portugal may be combined provided under specific conditions established in the national and community legislation, taking into consideration the several tax and financial incentive regimes available in Portugal.

It is strongly advised that the KPMG R&D and Innovation Incentives team carry out an integrated analysis to assess the investor strategic business case (investments and financial forecast) on a forward-looking approach in order to help optimize and anticipate future tax and incentives efficiencies in Portugal.

Romania

Introduction

R&D incentives have been available in Romanian fiscal legislation since 2009, and they currently consist of a corporate tax super-deduction (50 percent) for qualifying expenses, applying the accelerated depreciation regime for eligible assets and personal income tax exemption for salaries of researchers and other employees involved in R&D.

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Overview of R&D incentives

Definition of R&D

Apart from the personal income tax exemption, the R&D tax incentives apply for “applied research” (also referred to as “industrial research”) and for “technological development” (“experimental development”). The personal income tax exemption for employees involved in R&D, however, applies for all types of R&D and innovation activities.

Definitions of R&D activities are generally aligned with definitions in the OECD’s Frascati Manual and in European Commission Regulation (EC) No. 651/2014.

Applied research represents an activity aimed at acquiring new knowledge for the purpose of achieving a specific practical objective.

Technological development (experimental development) represents a systematic activity, based on knowledge derived from research and/or practical experience, aimed at producing new materials, products, or devices; establishing new processes, systems, and services; or substantially improving existing ones.

Innovation means the implementation of a new or significantly improved product, service, or process, or the implementation of a new marketing method or business. It can refer to product innovation, as well as to process innovation.

R&D expense deductions

Accelerated depreciation

Accelerated depreciation is granted for equipment used in R&D activities. According to the Fiscal Code, depreciation of up to 50 percent of the equipment’s fiscal value can be deducted in the first year. Going forward, the net book value will be depreciated using the straight-line method over the remaining useful life of the asset.

R&D expense deductions corporate tax super-deduction

An additional deduction of 50 percent may be granted for eligible expenses that can be related to R&D activities. The list includes:

- Depreciation or rental expenses for fixed assets or intangibles used for R&D activities, as well as related maintenance and repairs
- Salaries of the personnel involved in R&D activities



- Operating expenses incurred in carrying out R&D activities, such as services provided by third-party suppliers, consumables, small inventories, raw materials, parts, components, expenses related to other materials, or other similar goods used in R&D activities
- Overheads that can be directly or proportionally allocated using an allocation key (e.g., rent and utilities and administrative expenses).

Eligibility requirements for the R&D expenses-specific deductions

The fiscal incentives are granted for R&D activities that are relevant for the taxpayer’s activity, leading to results that can be used for its own benefit (e.g., used as part of its current activity, sold, or licensed). R&D activities may be carried out both in Romania and in other EU/EEA member states, including in association/collaboration with other parties or as a part of a group allocation cost agreement, if the taxpayer also uses the R&D results for their own activities. Tax incentives are granted separately to each entity that carries out R&D activities and records the related eligible expenses. If R&D is carried out by a subcontractor, on request, tax incentives are granted to the subcontractor, assuming that the R&D criteria is met.

Registration/Claim process for the R&D expenses-specific deductions

In order to benefit from the abovementioned tax incentives, companies must be subject to CIT in Romania. Tax incentives can be claimed by taxpayers in tax returns, subject to a tax audit. In order to justify the eligibility of the R&D activities, there are certain formal requirements to apply the incentive, such as documenting R&D projects (e.g., (a) scope and objective, (b) the period of the project, (c) the R&D field covered, (d) the sources of funding, (e) the budget, (f) the category result (e.g., studies, schemes, technologies, IT products, and others), and (g) the innovative character).

Also, starting from FY 2023, the legislation sets out a requirement for large taxpayers to certify the projects subject to the supplementary tax deduction with respect to the R&D activities. The certification should be provided by a designated expert from the Registry of Experts for Research & Development Activities (REXCD).

Personal income tax exemption for employees involved in R&D

The salary income earned by employees involved in R&D projects may be exempt from personal income tax, subject to certain conditions (e.g., the employer must be part of the national R&D system as per definitions provided by law, the employee should be included in the team of a formally defined R&D and innovation project, and the salary earned by the employee for their contribution to the project should be included in the estimated salary budget of the project).

In order to apply the incentives, the employer is responsible for evaluating the projects carried out by its employees and determining whether the relevant legal criteria are met. If the mandatory legal provisions are met, the employer can apply the incentive directly without prior validation by the authorities.

It is important to note that when the relevant application criteria are met, the employer needs to apply the personal income tax exemption to eligible employees. Should the employer decide not to do so, there is a risk of litigation with employees and the current practice of Romanian courts shows that there is high probability that the employer would lose the case.

Grants and other incentives

Employees involved in software development activities may be exempt from personal income tax, subject to fulfillment of certain conditions set out by law.

In 2023, a RON10,000 cap was introduced on tax-exempt income, with applicability up to December 31, 2028.

As in the case of personal income tax for employees involved in R&D, as set out above, it is important to note that when the relevant application criteria are met, the employer needs to apply the personal income tax exemption for eligible employees. Should the employer decide not to do so, there is a risk of litigation with the employees, and the current practice of the Romanian courts shows that there is high probability that the employer would lose the case.

Serbia

Introduction

Serbian system for R&D tax incentives comprises the following incentives:

- Double deduction of R&D costs for CIT purposes
- Exemption from Personal Income Tax and Pension Contributions for employees engaged in R&D activities
- Exemption of qualified income – IP Box
- Tax credit for investing in the capital of a newly established company that performs innovative activities.

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Overview of R&D incentives

Double deduction of R&D costs

This incentive allows not only all R&D costs, which include the salary costs for employees in R&D, but also all other business costs that can be related to R&D activities, such as material costs, real estate costs, plant and equipment costs, lease costs, borrowing costs, etc. to be deductible in double amount for CIT purposes.

Definition of R&D

- Definition of R&D is following IAS 38
- Research is defined as original and planned research undertaken with the aim of acquiring new scientific or technical knowledge and understanding
- Development is the application of research results or the application of other scientific achievements or designs in order to produce new or significantly improved materials, devices, products, processes, systems, or services before entering commercial production or use
- Some examples may include:
 - R&D of a new product (e.g., a new medicine, a new wrapper in the meat industry, and a digital textbook)
- Development of software application (including design and functionality testing).

Eligible expenditure

- Incentive is not allowed for R&D expenses related to finding and developing oil, gas, and mineral resources
- In order to qualify for the incentive, R&D projects must be conducted in Serbia (at least 90 percent of all employees engaged in R&D project must be in Serbia. Exceptionally, some parts of R&D project may be executed outside Serbia, provided that the relocation of R&D activities outside Serbia is caused by special physical, geographical, or natural factors that are not available in Serbia.
- Incentive can only be used by taxpayers that conduct R&D activities for their own account and that become owners of successful results and benefits (if any) of the R&D project
- Incentive could be realized regardless of the results of R&D. A possible failure of R&D project does not affect the right of the taxpayer to use this incentive.



Registration/Claim process

- The documentation and records that must be prepared, for each individual R&D project, are prescribed in detail in the relevant Rulebook
- The following documents must be submitted as appendix to CIT return:
 - Description (specification) of the project, with highlighted purpose of the project, its planned phases and activities within each of these phases
 - Records on time spent in tax year by each employee working on that particular project
 - Conclusion, with information on the amount of all R&D expenses in tax year
- The following documents must be available in taxpayer records CIT return:
 - Project budget approved by management along with performance projections expected from that particular project (we understand this is related to entire project)
 - Procurement plan related to that particular project
 - Opinions of experts who are in charge for project implementation
 - Contracts with third parties engaged on the project
 - Tax analytical records of R&D expenses for each project separately; content of which is regulated in more details by the relevant Rulebook.

Exemption from Personal Income Tax and Pension contributions for employees engaged in R&D activities

Headline rate

- This incentive allows that for salaries of employees directly engaged in R&D, the employer obtains exemption from the obligation to pay:
 - 70 percent of the calculated and withheld Personal Income Tax
 - 100 percent of contributions for Pension and Disability Insurance, both on behalf of the employee and on the behalf of the employer

- Exemption is proportionate and valid only for the work effectively performed on R&D. It is not possible for the exemption to apply on whole salary because of breaks, other work activities not directly related to R&D, holidays, vacation, etc.

Eligible expenditure

- Incentive is not allowed for R&D expenses related to finding and developing oil, gas, and mineral resources
- In order to qualify for the incentive, R&D projects must be conducted in Serbia (at least 90 percent of all employees engaged in R&D project must be in Serbia. Exceptionally, some parts of R&D project may be executed outside Serbia, provided that the relocation of R&D activities outside Serbia is caused by special physical, geographical, or natural factors that are not available in Serbia.
- Incentive can only be used by taxpayers who conduct R&D activities for their own account and that become owners of successful results and benefits (if any) of the R&D project
- Incentive could be realized regardless of the results of R&D. A possible failure of R&D project does not affect the right of the taxpayer to use this incentive
- Incentive is available only on salaries paid to employees who are directly engaged in R&D activities, meaning they are directly involved in identifying and solving appropriate scientific, process, or technical questions, issues, or tasks related to a specific project. These in particular may include employees engaged on development of new/improvement of existing production system and/or product, development of new or improvement of existing computer circuit, formulation of new chemical compounds, development of new or improvement of existing systems for solving the problems related to pollution of land and environment, estimation of land qualities, execution of laboratory experiments, development of software solutions, development of wastewater management system, development of new or improvement of existing materials and similar.
- Activities of direct or indirect project supervision and support to project implementation are not considered direct engagement in R&D.

Registration/Claim process

- The documentation and records that must be prepared, for each individual R&D project, are prescribed in detail in the relevant Rulebook
- The employer is obliged to obtain the below-stated records and documentation and submit them to the competent tax authority only upon request:
 - Separate records for each employee engaged in R&D activities, for whose salary the employer claims the exemption—more details prescribed in the relevant Rulebook
 - Signed statement of employer’s legal representative, given under criminal and material liability, that information in records from previous point is complete and true, and that at least 90 percent of all employees engaged in R&D perform their activities on the territory of Serbia
- Report of the employees engaged in R&D (in paper or electronic form) containing the specification of total working hours and working hours spent on R&D activities on a specific project in certain month (specification should contain information for each project separately if employee worked on several projects in a certain month):
 - Signed statement of the employees engaged in R&D, given under criminal and material liability, that information contained in report from previous point is complete and true
 - Description (specification) of the project, with highlighted purpose of the project, its planned phases and activities within each of these phases, with the opinions of experts who are in charge of project implementation (including the opinions of experts—employees who will work on the project)
 - Annual project budget and the total amount of approved budget, with projections of characteristics/results expected from the project
 - Annual report on the deviation from the budget
 - Report on status, i.e., the results of the project according to its goals, including the reasons and information related to abandoning the project or unsuccessful outcome of the project, signed by the employer's legal representative.

Exemption of qualified income – IP Box

This tax incentive allows that in the next phase, when R&D project is successful and results in the creation of a copyrighted work or subject of related rights (e.g., protected software) or invention, 80 percent of income that will be generated from the use of that copyrighted work is exempt from taxation. Hence, effective CIT rate will be 3 percent, instead of standard rate of 15 percent.

Eligible expenditure

Qualified income from use of IP right is 80 percent exempt from taxation is calculated on annual level based on the following formula:

$$\text{Qualified income} = \frac{\text{(Total income from use of IP right – qualified IP expenditures)}}{\text{Ratio of qualified IP expenditures in total IP related expenditures}}$$

Registration/Claim process

- The taxpayer must be the holder of the rights or applicant for giving the right to another person for compensation and needs to deposit the copyright or related right with the competent authority, by latest until the expiry of first year when this exemption is used.
- The documentation and records that must be prepared are prescribed in detail in the relevant Rulebook. Some of the relevant documents include:
 - A document issued by the competent authority, which confirms that IP right has been deposited in the appropriate register
 - Records of income generated on the basis of the fee for using the IP rights
 - Documentation related to the legal basis for granting the right to use IP right (e.g., license agreement)
 - Invoices issued in accordance with the documentation related to the legal basis for granting the right to use IP right
 - Other documentation prescribed in more detail in the relevant Rulebook.

Tax credit for investing in the capital of a newly established company that performs innovative activities

A taxpayer who invests funds in the capital of a newly established unrelated company that performs innovative activities can qualify for a tax credit that is used to reduce its calculated CIT liability.

Eligible expenditure

- Tax credit is allowed in the amount of 30 percent of investment, limited at RSD100 million in total and RSD50 million in one year
- In order to be entitled to a tax credit, the investment must not be reduced within a period of next three years. For example, for investment in 2024, the tax credit will be available in 2028
- Unused part of tax credit can be carried forward in the following five years
- For investment to be qualified, newly established company that performs innovative activities needs to fulfill the following conditions:
 - Is established no more than three years ago prior to investment
 - Predominantly carries out innovative activities in accordance with relevant regulations (i.e., carries out activities undertaken for the purpose of creating new products, technologies, processes, and services or significant changes to existing ones, in accordance to market needs)
 - At the time of investment, it has total income of no more than RSD500 million according to the latest available financial reports
 - Since its incorporation, it has not distributed dividends or profit shares and will not distribute them for a period of three years from investment date
 - Has a center of business interests on the territory of Serbia
 - It was not incorporated by way of status change (e.g., demerger, spin-off, or similar) from some other existing company
 - In each tax period starting from the first subsequent period as of incorporation, R&D costs are at least 15 percent of total expenditures, or highly qualified employees are more than 80 percent of all employees, or the company is the owner or user of the deposited IP rights related to innovative activities performed.

Registration/Claim process

- The documentation and records that must be prepared are prescribed in detail in the relevant Rulebook.
- In a tax period when investment is executed, investor submits the following documents:
 - Form UID – Statement on investment in innovative activities
 - Form UID 1 – Statement on the fulfillment of the conditions issued by the innovative company user of investment.
- In a tax period when investment is executed, investor submits the following documents:
 - Form UID 2 – Statement on the fulfillment of the conditions issued by the innovative company user of investment
 - Form PK 5 – Calculation of tax credit for investment in the capital of a newly established innovative company.

Singapore

Introduction

Singapore is positioning itself as an R&D and intellectual property (IP) hub. A key strategy to achieve this goal is to encourage increased private and public sector R&D spending. To encourage more private spending on R&D, the Singapore government has introduced a range of generous incentives, including financial grants and tax incentives, covering various activities along the productivity and innovation value chain.

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Overview of R&D and innovation incentives

A 400 percent tax deduction/allowance for the first SGD400,000 of qualifying expenditure incurred for each of the following qualifying activities per Year of Assessment (YA), under the Enterprise Innovation Scheme (EIS):

- R&D activities
- Registration of IPs
- Acquisition and licensing of IP Rights (IPRs).

A 250 percent tax deduction applicable for qualifying expenditure incurred on R&D activities exceeding the cap above.

Reduced corporate tax rate (5 percent or 10 percent or 15 percent) on qualifying IP income for approved Intellectual Property Development Incentive (IDI) companies.

Tax credits for qualifying R&D activities, with up to 50 percent of support on qualifying expenditure categories, under the Refundable Investment Credit (RIC) Scheme.

R&D tax relief

EIS

- *Enhanced tax deduction for R&D activities*

Benefits and qualifying period

Under the EIS [New] (effective for YAs 2024–2028), there is a 400 percent tax deduction for the first SGD400,000 of qualifying expenditure per YA and 250 percent tax deduction on the remaining expenditure for R&D carried out in Singapore. There is no cap on the amount of eligible R&D expenditure. This provides an effective benefit of up to 68 percent of the eligible R&D expenditure.

Companies may opt for a 20 percent cash payout in lieu of a tax deduction, capped at SGD20,000 per YA, across all activities (including R&D) under the EIS.

Definition of R&D for the tax relief

Any systematic, investigative, and experimental study that involves novelty or technical risk carried out in the field of science or technology with the objective of acquiring new knowledge or using the results of the study for the production or improvement of materials, devices, products, produce, or processes, but does not include certain activities.



Eligibility requirements

All businesses in all industry sectors in Singapore are eligible to make the claim, whether the R&D is undertaken in-house or outsourced, subject to the following:

- The R&D activities are performed in Singapore
- The claimant is the beneficiary of the R&D activities
- The claimant bears the financial risk of the R&D activities
- The nature of the activities satisfies the definition of R&D per the Singapore Income Tax Act.

For outsourced R&D payments and R&D cost-sharing arrangement expenditure, 60 percent of the costs are deemed as qualifying expenditure unless otherwise justified. Eligible costs are staff costs, consumables, outsourced R&D payments, and relevant expenditure incurred under an R&D cost-sharing arrangement.

Tax relief for IP registration costs

EIS

- *Enhanced tax deduction for registration of Intellectual Property (IP)*

Benefits and qualifying period

Under the EIS (effective for YAs 2024–2028), there is a 400 percent tax deduction for the first SGD400,000 of qualifying IP registration costs incurred in each YA. Tax deduction of 100 percent applies for any expenditure incurred beyond the above expenditure allowances (i.e., SGD400,000).

Companies may opt for a 20 percent cash payout in lieu of a tax deduction, on a per registration basis, capped at SGD20,000 per YA, across all activities (including IP registration) under the EIS.

Eligibility requirements

Companies from all industry sectors are eligible to make the claim, provided they own and retain the legal and economic rights of the IPR for a minimum period of one year.

Tax relief for IP acquisition costs

EIS

- *Enhanced Writing-Down Allowance (WDA) for acquisition of IPRs*

Benefits and qualifying period

Under the EIS (effective for YAs 2024–2028), a 400 percent WDA is granted on the first SGD400,000 of qualifying IPR acquisition expenditure for each YA. A WDA of 100 percent applies for any expenditure incurred beyond the above expenditure allowances (i.e., above SGD400,000).

Another scheme (in the form of investment allowances) is also available for the acquisition of IPRs, subject to application and approval by the relevant economic agency and is not precluded from enhanced WDA available under the EIS.

Companies may opt for a 20 percent cash payout in lieu of a WDA, only available on a per IPR basis, capped at SGD20,000 per YA, across all activities (including IP acquisition) under the EIS.

Eligibility requirements

Companies from all industry sectors are eligible to make the claim, provided they own the legal and economic ownership rights for a minimum period of one year. IPRs granted a waiver of the legal ownership condition do not qualify for the enhanced WDA.

Companies that incur IP acquisition expenditure for use in their business.

Tax relief for IP licensing costs

EIS

- *Enhanced tax deduction for licensing of IPRs*

Benefits and qualifying period

Under the EIS (effective for YAs 2024–2028), a 400 percent tax deduction applies for the first SGD400,000 of qualifying IP licensing expenditure incurred for each YA. Tax deduction of 100 percent applies for any expenditure incurred beyond the above expenditure allowances (i.e., above SGD400,000).

Companies may opt for a 20 percent cash payout in lieu of a tax deduction, capped at SGD20,000 per YA, across all activities (including IP licensing) under the EIS. This need not be made on a per IPR basis.

Eligibility requirements

Companies from all industry sectors are eligible to make the claim. Enhanced deductions will not be given if the qualifying IPR is licensed from a licensor, which is a related party that falls under certain conditions.

If a business had been granted a WDA on a qualifying IPR previously, enhanced deduction under the EIS for expenditure incurred on the licensing of the same IPR cannot be claimed.

Applying for EIS

- *Enhanced tax deduction for R&D expenditure*
- *Enhanced tax deduction for registration of intellectual property (IP)*
- *Enhanced WDA for acquisition of IPRs*
- *Enhanced tax deduction for licensing of IPRs*

Claiming enhanced tax deductions and WDA

Unless otherwise stated above, the claims for enhanced tax deductions and WDA do not require any presubmission approval or registration.

The claim for the enhanced tax deduction and WDA is made in the annual tax return and the company's tax computation.

- For R&D expenditure, detailed project descriptions of R&D projects are required to be submitted in a separate R&D Claim Form together with the company's annual tax return. All claims are subject to review by the IRAS as part of the normal tax assessment process.
- For IP registration expenditure, the company is not required to file any supporting documents with its annual tax return. However, supporting documents (documents regarding the costs of registering IPRs) must be kept and submitted upon IRAS's request.
- For IPR acquisition expenditure, a declaration form to confirm that the ownership requirements of the acquired IPRs have been met and a third-party independent valuation report on the value of the IPRs acquired are required to be submitted together with the company's annual tax return.
- For IPR licensing expenditure, the company is not required to file any supporting documents with its annual tax return.

Unutilized deduction/allowance arising from the EIS

Unutilized deductions and allowances may be carried forward indefinitely, subject to the satisfaction of the shareholder and business continuity test or transferred to other related entities under the Group Relief system.

Innovation tax relief

Intellectual Property Development Incentive (IDI)

Benefits and qualifying period

An approved IDI company is eligible for a reduced corporate tax rate of either 5 percent or 10 percent or 15 percent on qualifying IP income derived by it during the incentive period. The incentive period is limited to an initial period not exceeding 10 years and may be further extended for a period or periods not exceeding 10 years each.

Eligibility requirements

Companies from all industry sectors are eligible to make a claim, provided they own qualifying IP assets and are required to carry out expansionary projects in Singapore (e.g., advancement of capabilities toward globally leading industries) and meet the necessary economic commitments. Qualifying income will be computed through the application of the modified nexus ratio, which would take into account qualifying IP assets and R&D expenditure incurred by the applicant in Singapore versus overseas.

Application process

An application needs to be made with the Singapore Economic Development Board. Companies are expected to provide a business plan as part of the application. If the application is approved, the applicant must meet various economic commitments (such as R&D headcount) throughout the incentive period.

R&D Tax Credit

RIC Scheme [New]

Benefits and qualifying period

Qualifying activities will receive up to 50 percent of support on each qualifying expenditure category in the form of tax credits to be offset against CIT payable. Unutilized tax credits will be refunded as cash within 4 years of receiving the credits.

Each RIC award will have a qualifying period of up to 10 years. Quantum of RIC depends on support rates predetermined for different qualifying expenditure categories. Support rates will be commensurate with economic outcomes (or decarbonization outcomes for decarbonization projects) that the project is expected to bring.

Eligibility requirements

The RIC will support high-value and substantive economic activities such as:

- Investing in new productive capacity (e.g., new manufacturing plant and production of low-carbon energy)
- Expanding or establishing the scope of activities in digital services, professional services, and supply chain management
- Expanding or establishing headquarter activities or Centers of Excellence
- Setting up or expansion of activities by commodity trading firms
- Carrying out R&D and innovation activities
- Implementing solutions with decarbonization objectives.

Qualifying expenditure categories include capital expenditure, manpower costs, training costs, professional fees, fees for work outsourced in Singapore, materials and consumables, and freight and logistics costs.

Application process

An application needs to be made with the Singapore Economic Development Board. Companies are expected to provide a business/project plan as part of the application. If the application is approved, the applicant must meet various economic commitments (such as employment headcount, fixed asset investment, etc.) throughout the incentive period.

Other grants and incentives

Various grants are available to encourage R&D activities undertaken in Singapore. These grants provide cofunding support of up to 50 percent of eligible R&D costs and can support R&D activities in a wide range of industries such as fintech, financial services, insurance, marine, manufacturing, logistics, etc.

Slovakia

Introduction

R&D super-deduction is 100 percent since 2022.

Further, the introduction of its patent box scheme on January 1, 2018 provides a tax exemption on income from royalties and patented products of up to 50 percent.

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Overview of R&D incentives

An R&D super-deduction is available of up to 100 percent of qualifying R&D costs.

The Patent Box scheme provides an exemption against 50 percent income earned from the sale of patented products and income earned from royalties.

Definition of R&D

R&D is defined as basic research, applied research, and experimental research in line with the OECD guidelines.

R&D super-deduction

A taxpayer carrying out R&D activities is entitled to apply for 100 percent deduction of eligible R&D costs (amount reduced to 100 percent applicable from January 1, 2022). The taxpayer may further increase R&D deduction by a difference between:

- Average of R&D costs deducted in present tax period and R&D costs deducted in previous tax period
- Average of R&D costs deducted in two immediately preceding tax periods.

Generally, R&D cost deduction is not applicable to costs for which public support has been granted and for purchase of services and royalties. However, there are certain exemptions from this general rule.

Patent box

As of January 1, 2018, the Income Tax Act introduced the Patent Box regime as a separate tax incentive. Income for the use of or the right-to-use granted and registered patents, utility models, and software created by the taxpayer (not purchased) will be partially exempt from tax in the amount of 50 percent of income earned. The exemption will also apply to 50 percent profit (exceeding routine profit) generated by the sale of products manufactured using a registered patent or a technical design protected by a utility model.



South Africa

Introduction

The R&D additional tax allowance has been extended for another 10 years until 2033. This is evidence of the South African government's objective to incentivize companies to conduct their R&D activities in South Africa.

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Overview of R&D incentives

The R&D tax incentive offers an additional 50 percent tax deduction (over and above the 100 percent deduction allowed on revenue expenditure) on qualifying R&D revenue expenditure. At a corporate tax rate of 27 percent, this equates to 13.5 cents cash tax saving for every ZAR1 spent.

Additionally, a pilot/prototype plant exclusively used for R&D may be claimed at 150 percent rather than writing these assets off over multiple years.

Accelerated capital allowances are available for machinery and plant (other than a pilot/prototype plant) acquired and brought into use for the purpose of R&D—50 percent in the year it is brought into use, 30 percent in the year thereafter, and 20 percent in the third year.

Definition of R&D

“Scientific or technological R&D” is defined as systematic investigative or systematic experimental activities aimed at resolving scientific or technological uncertainty, and the resolution of which is not readily deducible by a person skilled in the relevant scientific or technological field for the purpose of:

- Discovering new scientific or technological knowledge
- Creating or developing new or significantly improved products, processes, or services
- Creating or developing a multisource pharmaceutical as defined in the World Health Organization Technical Report Series No. 937, 2006 Annex 7 Multisource (generic) pharmaceutical products
- Conducting a clinical trial as defined in Appendix F of the Guidelines for good Practice in the conduct of clinical trials with human participants in South Africa, issued by the Department of Health (2006).

Intellectual property ownership

Any R&D activity must be undertaken within South Africa to qualify. There is no requirement that resultant intellectual property is held in South Africa.

Eligibility requirements

Each R&D project that is submitted for approval is evaluated by an adjudication committee consisting of members of the Department of Science and Innovation (DSI), the South African Revenue Service (SARS), and an in-sourced specialist in the specific field.



Registration/Claim process

A detailed preapproval application must be submitted to the DSI for each R&D project. Once approved, the deduction is claimed in the annual tax return in respect to all qualifying expenditure incurred as of the date the application had been submitted. However, for all projects submitted after January 1, 2024, the successful applicant may claim all expenditure incurred for six months prior to the submission to the DSI (in respect to expenditure incurred as of January 1, 2024).

In addition, the R&D owner is required to submit an annual progress report to the DSI, within 12 months after the end of each year of assessment, starting with the year following the year in which approval is granted.

Other government incentives

The Department of Trade, Industry and Competition (DTIC) and SARS offer a variety of incentives in the form of cash grants and/or tax deductions, some of which are listed below.

Learnership allowance

This tax allowance provides a tax deduction of between R20,000 and R60,000 per learner, depending on the qualification of the learner. It is available to employers who have entered into registered learnership agreements on/after October 1, 2001 but before April 1, 2027.

Energy efficiency allowance

This tax allowance provides a tax deduction equal to 95 cents per kilowatt hour/kilowatt hour equivalent of energy-efficiency savings. It only applies to nonrenewable energy sources and may not be claimed if the taxpayer receives any concurrent benefit in respect to energy savings. The incentive is in place for years of assessment ending before January 1, 2026 and requires the entity to obtain a certificate from the South African National Energy Development Institute prior to being entitled to claim.

Global Business Services grant

This grant entitles the applicant to an average cash incentive of R26,000–R60,000 per job retained (2019–2028), specifically with regard to offshoring business services in South Africa. The applicant must create at least 30* new jobs within three years from start of operations and employ at least 60 percent* youth. In addition, a minimum wage of R5,000 p/m (or a minimum of R4,000 p/m for the first 12 months of employment for inclusively hired resources) must be paid. The applicant must commence operations and employment no later than 6 months from the grant approval date.

*Dependent on type of job created

Critical Infrastructure Program grant

This provides a 10 percent–100 percent cash grant up to maximum of ZAR50 million, and/or cost sharing of the total qualifying critical infrastructure development costs depending on the type of applicant. Applications must be submitted before the start of construction of such infrastructure, and the grant will be received at the end of the project.

Special Economic Zones

The Special Economic Zones Act aims to boost private investment in labor-intensive areas in order to stimulate job creation, competitiveness, skills, and technology transfer, as well as increasing exports of benefited products. Special economic zones (SEZs) are geographically designated areas, which are supported and incentivized through a range of measures including tax incentives (such as VAT and customs relief, an employment tax incentive that reduces employment tax, and a reduced corporate tax rate, being 15 percent instead of 27 percent). South Africa has 11 designated and approved SEZs across its 11 provinces. In addition, more zones are being proposed.

South Korea

Introduction

South Korea has continuously encouraged R&D investments and has provided different types of tax incentives for companies that contribute to increased R&D activities. Certain tax credits or exemptions are available up to a set period of time, but recent tax reforms have extended the sunset period for most of those tax credits and exemptions that are currently in effect.

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Overview of R&D incentives

Small enterprises in South Korea are eligible for tax credit of either 50 percent of the eligible R&D expense amount in excess of prior years' R&D expenditure or 25 percent of the eligible R&D expense amount, whichever is greater.

Midsized enterprises in South Korea are eligible for tax credit of either 40 percent of the eligible expense amount in excess of prior years' R&D expenditure or 8 percent of the eligible expense amount, whichever is greater.

Large enterprises in South Korea are eligible for tax credit of either 25 percent of the eligible R&D expense amount in excess of prior years' R&D expenditure or a maximum 2 percent of the eligible R&D expense amount, whichever is greater.

For companies located in R&D Special Zones, CIT is fully exempted for the first three years and 50 percent exempted for the subsequent two years.

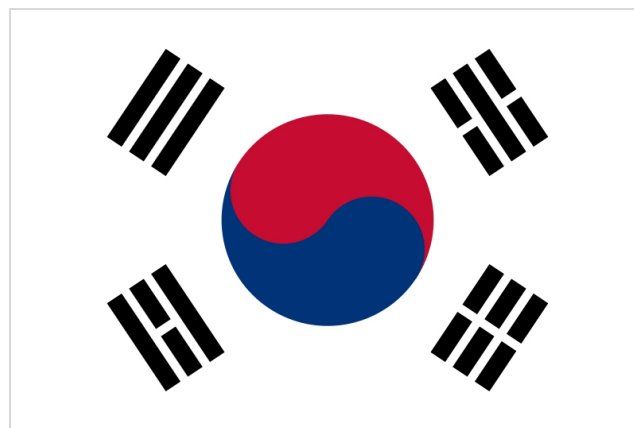
South Korea's central and local governments may provide cash grants to foreign investors who invest at least 30 percent in new establishment or expansion of a R&D facility that is dedicated to performing R&D activities in the New Growth Engine Industry.

Definition of R&D

The term "R&D" means activities for achieving scientific or technological progress and activities for developing new services and service delivery systems.

Activities excluded from R&D are as follows:

1. General management and support activities
2. Market research, promotional activities, and routine quality tests
3. Recurring information collection activities
4. Activities to investigate and analyze efficiency of management or business
5. Legal and administrative affairs, such as submitting applications for and protecting patent rights
6. Investigation and exploration activities to find reserves of natural resources, such as minerals, etc.
7. Research activities conducted on consignment
8. Activities to simply produce content that have already been planned
9. Repeated reproduction of previously commercialized or serviced software, etc.



R&D tax relief

Tax credit on R&D spend (small enterprises)

R&D tax credit is calculated via a formula either on a current year-spending basis or on an incremental spending basis, whichever is greater (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous four years; or prior year's R&D expenditure is smaller than average annual R&D expenditure incurred in the previous four years).

The amount of tax credit for small enterprises is computed as either (i) 50 percent of the eligible R&D expense amount in excess of prior years' R&D expenditure or (ii) 25 percent of the eligible R&D expense amount, whichever is greater.

For R&D activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government, the credit is calculated as maximum 40 percent of current R&D expenditure.

Tax credit on R&D expenditure (midsize enterprises)

R&D tax credit is calculated via a formula either on a current year spending basis or on an incremental spending basis method, whichever is greater (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous four years; or prior year's R&D expenditure is smaller than average annual R&D expenditure incurred in the previous four years).

For midsize enterprises, the tax credit is computed as either (i) 40 percent of the eligible expense amount in excess of prior years' R&D expenditure or (ii) 8 percent* of the eligible expense amount, whichever is greater.

*If a small enterprise is reclassified as a midsize enterprise in a specific year, the applicable rate is 15 percent for the first three years from the beginning of that tax year and 10 percent for the subsequent two years.

For R&D activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government, the credit is calculated as maximum 30 percent (maximum 40 percent for KOSDAQ-listed midsize companies) of current R&D expenditure.

Tax credit on R&D expenditure (large enterprises)

R&D tax credit is calculated via a formula either on a current year spending basis or on an incremental spending basis method, whichever is greater (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous four years; or prior year's R&D expenditure is smaller than the average annual R&D expenditure incurred in the previous four years).

For large enterprises, the tax credit is computed as either (i) 25 percent of the eligible R&D expense amount in excess of prior year's R&D expenditure or (ii) a maximum 2 percent of the eligible R&D expense amount, whichever is greater.

For R&D activities conducted in the New Growth Engine Industry or Original Source Technology Programs authorized by the government, the credit is calculated as maximum 30 percent of current R&D expenditure.

Tax exemption for company located in R&D special zone

CIT is fully exempted for the first three years and 50 percent exempted for the subsequent two years.

Eligibility requirements

R&D Special Zones are zones designated by government to promote new technologies through R&D.

If a company located in an R&D special zone is (i) designated as an advanced technology company by relevant law or registered as a qualified research institute company by December 31, 2025 and (ii) operates a qualified business (e.g., information and communication), it can claim up to a 100 percent exemption of CIT for the first three years of operation and a 50 percent exemption for the following two years. The total exemption amount during the exemption period is limited to 50 percent of qualified investment amount. This limit can be further increased to KRW15 million per full-time employee.

Tax exemption on IP lease (small or midsize enterprises)

Twenty-five percent of CIT on the income from lease of IP is exempted.

Eligibility requirements

Certain types of IP (i.e., patent, etc.), as prescribed by the South Korean tax law, obtained as a result of its own R&D by a small or midsize enterprise and leased to another party (except for related parties) by December 31, 2026, are eligible for this exemption.

Tax exemption on IP transfer (small or midsize enterprises)

Fifty percent of CIT on the income from transfer of IP is exempted.

Eligibility requirements

Certain types of IP (i.e., patent, utility model right, technical know-how, or technology), as prescribed by the South Korean tax law, patent, obtained as a result of its own R&D by a small or midsize enterprise and transferred to another party (except for related parties) by December 31, 2026 are eligible for this exemption.

Nontax cash grants (foreign-invested R&D center)

The amount and payment of cash grant are determined by the relevant government authorities and the foreign investment committee.

Eligibility requirements

South Korea's central and local governments may provide cash grants to foreign investors who invest at least 30 percent in new establishment or expansion of an R&D facility that is dedicated to performing R&D activities in the New Growth Engine Industry. The R&D facility should have at least five full-time dedicated personnel with academic background of at least a bachelor's degree and R&D work experience of three years or more, or a master's degree in a high-technology service area.

Individual income tax exemption for foreign engineers

Fifty percent of income tax exemption applies from the date the employment in South Korea commences and up to the month in which the date falling on 10 years from the date.

Eligibility requirements

Foreign engineers working for foreign-invested R&D centers in South Korea that satisfy specified criteria (i.e., investment amount and ratio, qualifications of full-time dedicated personnel, and existence of independent research facility) or those providing technical services in South Korea under engineering technology license agreement prescribed by Ordinance of the Ministry of Economy and Finance are eligible for this exemption. The foreign engineers should not be South Korean citizens and should commence their services in South Korea on or before December 31, 2026.

Individual income tax exemption for South Korean engineers returning from abroad

Fifty percent income tax exemption applies from the date the employment in South Korea commences and up to the month in which the date falling on 10 years from the date.

Eligibility requirements

Qualified South Korean engineers (i.e., have at least five years of work experience at foreign R&D centers after obtaining a PhD degree in national, scientific, engineering, or medical discipline) returning from abroad and working for certain designated R&D centers in South Korea are eligible for this exemption.

The qualified South Korean engineers should commence their services in South Korea on or before December 31, 2025.

Tax Credit for Corporate Research Institute

Acquisition tax exemption and property tax exemption for qualified corporate research institute

For a qualified real estate acquired by a large enterprise for direct use in its qualified corporate research institute, the acquisition tax is exempt by 35 percent, and the property tax is exempt by 35 percent until December 31, 2025.

For small enterprises, the acquisition tax exemption rate is 60 percent, and the property tax exemption rate is 50 percent. For midsize enterprises, the acquisition tax exemption rate is 50 percent, and the property tax exemption rate is 50 percent.

If the qualified corporate research institute is related to New Growth Engine Industry or Original Source Technology Programs, the exemption rate increases to 50 percent, respectively, for acquisition tax and property tax until December 31, 2025. For small enterprises, the acquisition tax exemption rate is 75 percent, and the property tax exemption rate is 65 percent. For midsize enterprises, the acquisition tax exemption rate is 65 percent, and the property tax exemption rate is 65 percent.

Registration/Claim process – Submission of relevant application form

Tax credit on R&D expenditure/investment in R&D facility or equipment

An application for tax credit (along with details of R&D expenses and other relevant supporting documents in case of tax credit on R&D expenditure) should be filed with the annual CIT return.

Tax exemption for company located in R&D special zone/IP transfer/IP lease

An application for tax exemption should be filed with the annual CIT return.

Nontax cash grants

The cash grant application form, as prescribed by the Ministry of Trade, Industry and Energy, must be submitted along with an investment plan detailing the total investment amount and employment scale, effects of technological diffusion, level of contribution to the local economy, and other matters determined by the Minister of Trade, Industry and Energy.

Individual income tax exemption for foreign engineers/Korean engineers returning from abroad

An application for tax exemption should be filed through the withholding agent with the tax office having jurisdiction over the employer by the 10th of the month following the month in which the employee provided service.

Acquisition tax reduction and property tax reduction for qualified corporate research institute

A document including the details of the property related to the tax reduction should be submitted to the head of the competent local government within the relevant tax year.

Other relevant information

Period of credit carryforward

Tax credit on R&D expenditure and tax credit on investment in R&D facility or equipment are not refundable tax credit (i.e., cannot reduce tax liabilities below zero).

Unused tax credit is generally carried forward for 10 years.

Spain

Introduction

Spanish legislation sets out several incentives for R&D activities, including technological innovation. In this regard, the following R&D tax incentives are applicable for Spanish companies/permanent establishments:

- Spanish R&D and Technological Innovation tax credits (RDTC)
- Grants and Soft loans for R&D, Pay-roll or capital expenditure (Capex) investments.
- Social security contribution exemption for R&D-dedicated staff
- Spanish “patent box” regime
- Free depreciation for R&D activities.

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Overview of R&D incentives

The R&D tax credit amounts to 25 percent of R&D-related expenses incurred in the tax period.

Where the expenses of R&D activities are higher than the average of those incurred in the two preceding years, 25 percent is applied up to that average amount, and 42 percent is applied to the excess. For technological innovation activities, the tax credit is constant and amounts to 12 percent of related expenses incurred in the tax period. Different percentages could apply in some specific regions (Basque Country, Navarre, and Canary Islands). The costs of R&D and technological innovation activities are deductible for CIT purposes (CIT rate is 25 percent). A “cash refund” system is available for companies with tax losses or lower tax due than R&D tax credits.

Definition of R&D

For the purposes of the R&D tax credit, “research” is an original, planned investigation aimed at attaining new knowledge and a greater understanding in the scientific and technology field. “Development” is the application of the results of the research or of any other type of scientific knowledge for the manufacturing of new material 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 preexisting systems.

Specifically, R&D activities include the materialization of the results of the research in a plan/draft, scheme, or design; and the creation of initial, not-for-sale prototypes or demo projects, if they cannot be converted or used for industrial or business purposes. R&D activities also include the design and manufacturing of samples for the launching of new products. Additionally, R&D activities include the creation, combination, or configuration of “advanced software” (by way of new theorems and algorithms, operative systems, programming languages, interfaces, and applications intended to create new product, process, or service or significantly improved ones).

Technological innovation is defined as activities resulting in advanced technology in new products or manufacturing processes or in the significant technological improvement of already existing products or processes. For this purpose, “new” products or processes are those whose features or uses substantially differ from a technical perspective to already existing products or processes.



Specifically, these types of activities include those consisting of the materialization of new products or processes in a plan/draft, scheme, or design; the creation of a not-for-sale prototype; the initial sample project or demo project including those related to animation and video games; and those related to fashion, shoe, leather, toys, furniture, and wood industry, provided that these cannot be converted or used for business or industrial purposes).

R&D tax relief

The costs of R&D activities are deductible for CIT purposes (general CIT rate is 25 percent). The R&D-related expenditures can be deducted in the year in which they were borne or amortized over periods in accordance with Spanish GAAP. They can also be freely depreciated for Spanish CIT purposes (e.g., 100 percent in the first year) under certain circumstances.

A tax amortization rate, which may differ from the Spanish GAAP amortization rate, is allowed for tangible and intangible R&D assets used for R&D activity (freedom of depreciation), except on lands and buildings. The portion of buildings used for R&D activities can be depreciated at an annual 10 percent rate.

R&D tax credits can be applied in the annual CIT return due six months and 25 days following the end of the financial year. R&D tax credits applied in a given year, jointly with other Spanish tax credits, cannot exceed 25 percent, or 50 percent on certain cases, of the CIT tax due for the year. Any unapplied credits may be carried forward for 18 years (30 years in the Basque Country). The company may also claim the cash back of the tax credit.

As of January 1, 2015, tax authorities have 10 years (after the due date of the corresponding CIT return) to audit these tax credits.

Eligibility requirements

To be entitled to claim the R&D tax credit, the following conditions should be met:

- Expenses incurred should correspond to activities carried out in Spain or in another state member of the EU or the EEA
- The R&D activities could be carried out directly by the company eligible for the tax credit. Additionally, amounts paid to a third party (in EEA) for R&D activities, upon petition of the taxpayer, would qualify for the tax credit. (Double-dip is possible.)

Registration and claim process

- Where a company satisfies the requirements of the legislation and has maintained the necessary supporting records, a claim may be made in the annual CIT return. A previous confirmation from the tax authorities is not required.
- Taxpayers are entitled to ask the Ministry of Science (or equivalent) to qualify (through a Binding Reasoned Report (BRR)) the activities (as R&D or technological innovation) to be sure that the company can apply for the tax credit
- Taxpayers may request rulings, which would be binding, from the tax authorities on the interpretation and application of this tax credit
- Taxpayers may apply to the tax authorities for the adoption of Previous Valuation Agreement (PVAs) on the eligibility of expenses relating to R&D projects.

Cash refund relief

Taxpayers who are in a tax loss position or have reached the annual tax credits ceiling, can claim a cash refund of their R&D tax credit (or the excess).

Taxpayers must fulfill specific requirements such as:

- Maintaining the average staff (general, global, or R&D exclusive workforce staff) in the next two years after the end of the financial year
- Claiming the refund at least one year after the end of the financial year of the R&D tax credit generation
- Reinvesting the refunded tax credit in R&D or technological innovation activities (expenses, fixed, or intangibles assets) within the 24 months of the relevant financial year-end
- Obtaining the corresponding BRR from the Ministry of Science, a tax ruling or a PVA with the Spanish tax authorities, on eligibility of the activities/project.

The CIT law specifies that the taxpayer will apply for only 80 percent of the original R&D tax credit. The refund will be limited up to EUR3 million for R&D and technological innovation activities including a ceiling of EUR1 million for technological innovation activities part. For companies with R&D costs higher than 10 percent of their turnover, the cap would increase from EUR3 million to EUR5 million (same ceiling for TI part).

R&D tax relief – Other relevant information

- The R&D tax credit amounts to 25 percent of R&D-related expenses incurred in the tax period. Where the expenses of R&D activities are higher than the average of those incurred in the two preceding years, 25 percent is applied up to that average, and 42 percent applies to the excess.
- In addition, a 17 percent tax credit is allowed for the costs incurred that represent personnel expenses related to qualified research workers engaged exclusively in R&D activities. An 8 percent credit is allowed for investments in intangible and tangible assets (excluding buildings and land) employed exclusively in the performance of R&D activities. A constant 12 percent tax credit is available for technological innovation activities. For the calculation of the tax credits, the expenses are reduced by 100 percent of the government subsidies granted for those activities and considered as income for the year.
- The rates for R&D and technological innovation differ from those established in the rest of Spain for the Basque Country and Navarre (30–50 percent for R&D and 15 percent for technological innovation) as well as for the Canary Islands (45–75.6 percent for R&D and 45 percent for technological innovation, plus a 37 percent tax credit for research workforce and a 28 percent credit allowed for investments. Note that the limit of application become 60 percent and 90 percent instead of 25 percent and 50 percent).

Social Security contribution exemption for R&D staff

As of January 1, 2013, a 40 percent reduction on Social Security contribution for R&D staff (here means staff assigned exclusively to R&D and/or technological innovation activities) is allowed for innovative SMEs or for other companies but restricted to personal wages not included in R&D tax credit basis in RDTC basis.

The 475/2014 royal decree establishes that the reduction is automatic unless the taxpayer is claiming for more than 10 persons during at least three months a year, when they had to present to the Social Security fund a binding reasoned report of the Ministry of Science confirming the eligibility of every R&D staff.

As of September 1, 2023, newly hired R&D staff should be registered starting from the hiring date, with specific type of contract, and should not have been under an indefinite contract in the last three months. The exemption could be claimed for three years maximum. In the case of women, the exemption will have an extra plus 5 percent (45 percent). Same for under 30 new R&D staff (45 percent), reaching 50 percent if both conditions are met.

Reduction of earnings derived from certain intangibles assets

The taxpayer is entitled to a 60 percent reduction of positive net earnings (revenue-deductible amounts) obtained from the transfer of intangible assets for the purposes of calculating its CIT-taxable basis. However, the reduction would only apply in relation to the proportion of income resulting from a specific ratio (numerator: expenses (excluding financials and depreciation of buildings)) incurred by the licensor directly related to the creation or development of an asset, including those derived from the outsourcing to unrelated parties.

This expense would be increased by 30 percent with the limit of the amount of the denominator; (denominator: same expenses and including outsourcing with related third parties or expenses from the acquisition of the asset).

This exemption would also apply to the income derived from the transfer of qualifying intellectual property to a nonrelated party. This reduction is incompatible with the tax credit for reinvestment of extraordinary profit.

Qualifying intangible assets are the transfer of right to use, or exploitation of patents, blueprints, complementary certificates for drug protection or plant protection products, drawings, and models legally protected, resulting from an R&D or technological innovation activity, and advanced software registered resulting from R&D activity.

Intangible assets that are explicitly excluded are trademarks; literary, artistic, or scientific works, including cinematographic films; personal rights susceptible to transfer (such as image rights, computer programs, industrial, commercial, or scientific equipment); and any other right or asset other than those included before. To qualify, the following requirements must be met:

- Licensee must use the licensed asset in an economic activity. This use cannot result in the sale of goods or provision of services to the licensor that generates deductible expenses for the licensor in case of related parties.

- The licensee must not be a resident in a no-tax or blacklisted jurisdiction unless it is an EU member state and can demonstrate that the operation has a true economic basis and the entity has an economic activity
- If any additional services are included in the licensing agreement, the consideration for such services must be included separately in the agreement
- Accounting books for determining the income and direct expenses with respect to the licensed assets must be maintained.

Taxpayer can ask for a tax ruling or an PVA with tax authorities in relation to the income derived from the assignment of assets and the corresponding expenses, as well as on any amounts earned on their transfer. There is also the possibility of requesting a prior agreement qualifying the assets as intangible assets eligible for the application of this tax incentive.

Other grants and incentives

The Spanish Central Government and other regional/local administration provide a range of subsidies for the performance or R&D or innovation activities and for sustainability/capacity investments, digitalization, and so on.

Spain has also some programs (on a national or regional level) to grant the hiring of specific researcher such as pre-PhD degree, PhD degree, post-PhD degree, foreign work people, etc.

As the possible calls are so wide, KPMG has a specific advisory service to assess on the best timings to submit the best claim to the best call.

Next-generation funds

The European Next Generation funds offer an additional opportunity to the usual Spanish grants and incentives. These funds reinforce R&D and innovation funding calls, in addition to other actions and investments. With the addendum approved in 2023, the expected funding amount for grants and loans increases to more than 100 billion for the years 2024, 2025, and 2026. The main objectives for these funding calls are expected to be related to energy transition; agri-food; industrial and technological autonomy; digitalization and cybersecurity; and sustainable financial, social, and environmental growth. KPMG has a dedicated team with extensive knowledge and experience in Next Generation funds in order to advise in the analysis, submission, and implementation of projects eligible for these funds.

Sri Lanka

Introduction

R&D-related incentives and tax concessions are provided under the tax regime contained in the Inland Revenue Act and the Value-Added Tax Act.

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Overview of R&D incentives

Up to double tax deduction on R&D expenses; additional direct and indirect tax benefits to researchers.

Definition of R&D

“R&D expenses” mean expenses incurred by the person in:

- a. Carrying on any scientific, industrial, agricultural, or any other research for the upgrading of the person’s business through any institution in Sri Lanka (or for any innovation or research relating to high-value agricultural products, by the person or through any research institution in Sri Lanka)
- b. The process of developing the person’s business and improving business products or process, which will be beneficial to Sri Lanka but should exclude expenses incurred that are otherwise included in the cost of an asset.

R&D tax relief

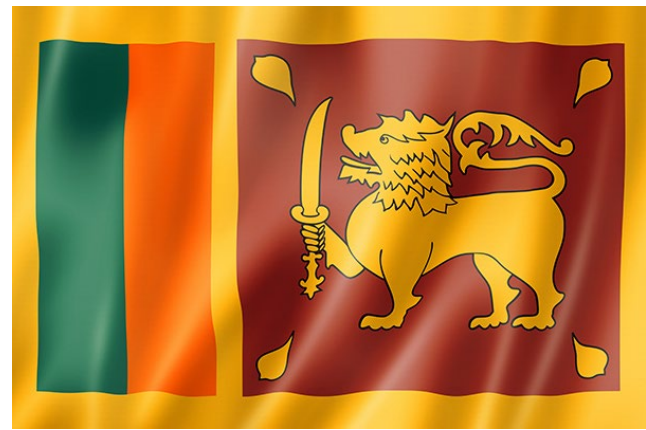
Tax deduction (all companies)

Double tax deduction is allowed on R&D expenses of capital and revenue nature for income tax purposes for a period of five years commencing from April 1, 2018 (i.e., until March 31, 2023). Full deduction remains available for capital and revenue nature R&D expenses after April 1, 2023.

Eligibility requirements

Tax deduction (all companies)

- Any company incurring expenses on executing any scientific, industrial, agricultural, or any other research for upgrading business through any institution in Sri Lanka, or innovation or research pertaining to high-value agricultural products by any institution in Sri Lanka
- The process of developing the person’s business and improving business products or process, which will be beneficial to Sri Lanka.



R&D tax relief

Direct and indirect tax benefits to researchers

- VAT exemption for supply of R&D services within the meaning of Inland Revenue Act No. 10 of 2006 has been removed w.e.f. January 1, 2024
- Income tax exemption for any prize received from the president or government of Sri Lanka in recognition of innovation or R&D activity.

Eligibility requirements

Direct and indirect tax benefits to researchers

Any person engaged in the supply of R&D services.

Registration/Claim process

Income tax

The claim or exemption has to be made in the annual Income Tax Return in calculating the taxable income.

Sweden

Introduction

Sweden offers an R&D tax incentive in the form of a reduction of employer social security contributions for R&D employees who are engaged in commercially performed R&D. The reduction is made in the monthly employer PAYE tax return (*Swe: arbetsgivardeklaration*). This relief came into force on January 1, 2014 and is intended to stimulate investments in activities with real R&D content. The rules, and more specifically the cap, has been altered several times since the rules were taken into force. As from January 1, 2024, the maximum relief is SEK3,000,000 per month for all R&D personnel in an entire group of companies regarding R&D work.

There is also an expatriate tax regime under which a 25 percent reduction of taxable income paid to a foreign employee is granted, provided that certain requirements are fulfilled. The relief applies to foreign key personnel, as well as foreign experts and scientists with knowledge and skills that are scarce in Sweden. Please refer to "Other grants and incentives" for more information on this relief.

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Overview of R&D incentives

Definition of R&D

Research is defined as systematic and qualified work undertaken to acquire new knowledge for commercial purposes. Research work can be based on prior research findings. Development is defined as systematic and qualified work for commercial purposes using existing research findings to produce new materials, products, services, or processes or substantially improving those already produced or installed. The development work should be as a direct consequence of research findings. “Ordinary” product development is excluded (e.g., ongoing development of existing product by refinement, adjustment, or adaptation).

R&D employer social security deductions

As from January 1, 2024, a new model for the deduction applies, which means that the deduction is made directly on the sum of the employer social security contributions and the general wage contribution, with a percentage of 20 percent. Under certain conditions, a reduction is also allowed in a month when the employee is absent due to sick leave, holiday, parental leave, or similar. The remaining employer social security contributions must cover the contribution for old-age pension (*Swe: ålderspensionsavgift*), currently 10.21 percent (2024).

The reduction is capped at SEK3,000,000 per month and company as of January 1, 2024.

Eligibility requirements

Only remunerations paid to employees that meet the following criteria will be subject to the reduction of employer social security contributions:

- Employees must work with qualified and systematic research and/or development
- Employees must work at least 50 percent of their actual working hours (minimum 15 working hours) each month with qualified and systematic R&D
- Employees can qualify until (and including) the year they turn 65 years old.

Examples of employees who might qualify are scientists, qualified product developers, and medical or technical experts performing tasks as a part of R&D projects.



Registration/Claim process

A reduction is made on the monthly employer PAYE tax return (*Swe: arbetsgivardeklaration*). There is no special registration or application formalities. However, the tax authorities are aggressive in their pursuit of controlling that companies have the right to reduce their social security contributions.

R&D tax credit

As stated previously, the reduction is capped at SEK3,000,000 per month (equals a total salary of approximately SEK15,000,000 per month for all R&D personnel). The maximum reduction applies to an entire group of companies. The employer social security contributions are reduced with 20 percent of the employee’s total gross salary paid in the actual month for work begun as of April 1, 2020, which is attributed to R&D.

Up until March 31, 2020, the social security contributions were reduced by 10 percent of the employees’ total gross salary.

Other grants and incentives

There is an expatriate tax regime under which a 25 percent reduction of taxable income paid to a foreign employee is granted, provided that certain requirements are fulfilled. The relief applies to foreign key personnel, as well as foreign experts and scientists with knowledge and skills that are scarce in Sweden. Hence, this relief could apply to any category of employees and is not strictly referring to employees working with R&D.

If the employee begins their work in Sweden during 2024, the monthly remuneration must be at least SEK114,601.

As of January 1, 2024, the period for which tax relief is granted was extended from five to seven years. This prolonged period is applied in situations where the employee’s stay in Sweden began after March 31, 2023.

Please note that the tax relief is valid for five years in the following situations:

- The employee's stay in Sweden began before April 1, 2023
- The employee has been granted expert tax relief prior to January 1, 2024 and they have not received a specific decision extending the period of validity to seven years. The possibility to apply for an extension was available until March 31, 2024.

Please note that the tax relief is valid for three years in the following situations:

- The employee's stay in Sweden began before June 1, 2020
- The employee has been granted the expert tax relief prior to January 1, 2021 and they have not received a specific decision extending the period of validity to five years. The possibility to apply for an extension was available until March 31, 2021.

Switzerland

Introduction

Innovation is a central source of economic growth and prosperity in Switzerland. Since the country is too small to be a production location for mass products, and has no reserves of raw materials, it can only be successful if it develops innovative new products, processes, and technologies. Therefore, Switzerland has a strong domestic industry with long-standing traditions and experience, where customers, suppliers, and qualified workforce are easily available. Aside from the excellent business environment, Switzerland is also known for its high quality of life, being considered a very safe country with an excellent healthcare system. Finally, it also provides a very competitive tax environment with ordinary combined effective tax rates between 12 percent and 21 percent (without considering the domestic top-up tax introduced as of January 1, 2024 in light of Pillar Two implementation). Switzerland further knows tax incentives to promote innovation. As a result, Switzerland is the perfect location for performing R&D activities and exploiting IP.

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Overview of R&D incentives

Innovation tax incentives were introduced on cantonal level (not on federal level) to promote R&D to further enhance the innovation-friendly climate in Switzerland. The measures introduced consist of patent box (according to OECD standard) and an R&D super-deduction regime. The patent box regime provides a CIT exemption on income from patents and similar rights of up to 90 percent, while the R&D super-deduction provides up to an additional 50 percent tax deduction against qualifying R&D expenditure, depending on the canton.

In light of the global minimum tax, further cantonal measures and instruments to promote R&D as well as ESG innovation and investments are currently evaluated and subject to political processes. As of May 2024, around half of all Swiss cantons are considering the introduction of new measures to maintain their attractiveness as an R&D and innovative business location. As of September 2024, three cantons have published specific proposals for such new measures.

R&D super-deduction

Definition of R&D

For the R&D super-deduction scientific research and science-based innovation activities across any sector may qualify. It is expected that an R&D activity needs to meet the respective criteria (i.e., novelty, creativity, uncertainty, systematic approach, and transferability and/or reproducibility) of the OECD Frascati Manual (2015) in order to qualify.

Super-deduction

R&D tax relief is available primarily for expenses associated with company staff directly involved in R&D. Based on qualifying personnel expenses an additional lift-up of 35 percent (to cover other R&D costs) if costs are generated by the company itself can be made. In addition to this, third-party costs (contract R&D within the company group or externally) may be eligible based on 80 percent of invoiced costs. The level of the additional R&D deduction varies from canton to canton but could provide up to an additional 50 percent deduction against the claimant's taxable income.

Eligibility requirements

A Swiss taxpayer would need to demonstrate that qualified R&D activity (see above definition) is at hand. The activity must be conducted in Switzerland. R&D costs need to be caused by the taxpayer itself (personnel expenses directly attributable to the R&D activity) or indirectly by other parties in Switzerland.



The super-deduction is to be claimed at time expenses incur. The super-deduction cannot be claimed in case of loss making and may be further restricted by the overall limitation (maximum tax deduction of 70 percent [or lower threshold depending on canton] of taxable income before any incentives).

Registration/Claim process

The R&D super-deduction is granted upon application. Companies have to complete an R&D tax incentive schedule attached to their annual CIT return. Accurate documentation should be prepared as the proof—that requirements are met—is the duty of the taxpayer.

Patent box

Qualifying rights

All patents and similar rights such as supplementary protection certificates, protected topographies, plant varieties, and other property rights in the areas of remedies and agriculture qualify for patent box. Both domestic and foreign patents and rights qualify.

Patent box reduction

The patent box gives an exemption from CIT of up to 90 percent of income from patents or similar rights, with many cantons adopting this 90 percent exemption rate.

Qualifying income can be licensing income, profits generated from patent income embedded in product price, and profits arising from the sale of patents and similar rights.

The patent box cannot be claimed in case of loss making and may be further restricted by the overall limitation (maximum tax deduction of 70 percent [or lower threshold depending on canton] of taxable income before any incentives).

The application of patent box may generate costs when exercised the first time (entry into the box) or the benefits of the patent box have been absorbed until any historic development costs have been offset with profits.

Eligibility requirements

To meet the patent box requirements, the company must have previously incurred qualifying R&D expenses relating to the development of such patents or similar rights (nexus) according to OECD standard.

Registration/Claim process

The patent box reduction is granted upon application. Companies have to complete a patent box schedule attached to their annual CIT return. Accurate documentation should be prepared as the proof—that requirements are met—is the duty of the taxpayer.

Other grants and incentives

Provision for future R&D expenses

Swiss law provides for tax deductible provisions (basically reserve fund) for future R&D engagements to third parties up to 10 percent of taxable income or profit (maximum amount of CHF1 million).

Taiwan

Introduction

Taiwan provides a variety of tax and nontax incentives to encourage investment in Taiwan. The main incentives are provided under the Statute for Industrial Innovation (SII). In addition to the current R&D Tax Credit provided under SII, the SII also offers the ITC of so-called “forward-looking innovative R&D expenditures” from January 1, 2023 onward. The aforementioned ITCs under SII are effective until December 31, 2029.

Additional R&D ITCs are provided under the Act for Development of Small and Medium Enterprises (DSMEs), the Act for the Development of Biotech and Pharmaceutical Industry (BPI), and the Act for Promotion of Private Participation in Infrastructure Projects (PPIPs) for eligible companies.

The taxpayer can only choose one of the aforementioned regulations to utilize such ITCs.

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Overview of R&D incentives

Under SII, an investment tax credit up to 15 percent of eligible R&D expenditures is available against their current year's CIT or up to 10 percent of eligible R&D expenditures against its CIT payable over three years.

Under SII, an investment tax credit up to 25 percent of forward-looking innovative R&D expenditures against their current year's CIT.

Under DSMEs, an investment tax credit up to 15 percent of eligible R&D expenditures is available against their current year's CIT or up to 10 percent of eligible R&D expenditures against its CIT payable over three years.

Under BPI, an investment tax credit up to 25 percent of eligible R&D expenditures is available for a period of five years from the year in which CIT is payable.

Under PPIP, an investment tax credit may go up to 20 percent of eligible R&D expenditures for a period of five years from the current year.

Definition of R&D

R&D is defined as activities that involve innovation carried on for the purpose of development of new materials, products or techniques, manufacturing processes, or service workflow.

R&D tax relief

Investment Tax Credit

SII

Eligible companies or limited partnerships can choose either one of the below:

- Credit up to 15 percent of eligible R&D expenditures against their current year's CIT
- Credit up to 10 percent of eligible R&D expenditures against their current year's CIT, with any unused ITC carried forward for a period of two years.

The amount of tax credit is limited to 30 percent of the current or each year's CIT.

SII

Eligible companies can enjoy credit up to 25 percent of forward-looking innovative R&D expenditures against their current year's CIT and is capped at 30 percent of CIT payable.



DSMEs

Eligible SMEs can choose either one of the below:

- Credit up to 15 percent of eligible R&D expenditures against their current year's CIT
- Credit up to 10 percent of eligible R&D expenditures against their current year's CIT, with any unused ITC carried forward for a period of two years.

The amount of tax credit is limited to 30 percent of the current or each year's CIT.

BPI

Eligible companies can credit up to 25 percent of eligible R&D expenditures for a period of five years from the year in which CIT is payable. The amount of the tax credit is limited to 50 percent of each year's CIT. The 50 percent tax credit limitation shall not apply to the amount to be offset in the last year.

PPIP

Eligible companies or other private legal entities may credit up to 20 percent of eligible R&D expenditures for a period of five years from the current year. The amount of the tax credit is limited to 50 percent of each year's CIT. The 50 percent tax credit limitation shall not apply to the amount to be offset in the last year.

Eligibility requirements

Investment Tax Credit

SII

The R&D ITC incentive is applicable for companies or limited partnerships (branches of overseas companies are excluded), where they have not violated any environmental protection, labor safety and health, or food safety and sanitation laws in the past three years.

The ITC of forward-looking innovative R&D expenditures is applicable to companies, where they have not violated any environmental protection, labor safety and health, or food safety and sanitation laws in the past three years, and met all of below criteria:

- Undergo technological innovation onshore and assume critical position in global supply chain;
- R&D expenditure reaches a certain threshold;
- R&D density (i.e., ratio of R&D expenditure to net revenues) reaches a certain threshold; and
- Effective rate of income tax is higher than a certain rate.

DSMEs

The R&D ITC incentive is applicable for small and medium enterprises (SMEs), where they have not violated any environmental protection, labor safety and health, or food safety and sanitation laws in the past three years. The SME is defined as an enterprise registered with:

- A paid-in capital under NTD100 million
- Less than 200 regular employees.

BPI

The R&D ITC incentive is applicable for eligible “biotech and pharmaceutical company” refers to companies in the biotech and pharmaceutical Industry, where they have no violation of any environmental protection, labor safety and health, or food safety and sanitation laws in the past three years, and engages in the following business activities approved by the Competent Authority:

- The research, development, and manufacture of new drugs, new dosage forms, high-risk medical devices, regenerative medicine, precision medicine, digital medicine, innovative technology platforms dedicated to biotech and pharmaceutical industry, and other strategic biotech and pharmaceutical products.

PPIP

The R&D ITC incentive is applicable for private institutions participating in a major infrastructure project and the total R&D expenditure invested in the same taxable year exceeds NTD1.5 million or exceeds 2 percent of its net business revenue.

Expiration date

Investment tax credit

SII

- Effective until December 31, 2029

DSMEs

- Effective until December 31, 2033

BPI

- Effective until December 31, 2031

PPIP

- Has no stated expiration date

Registration/claim process

According to SII, DSME, and BPI, an application for eligibility requirements and qualified R&D activities should be made with the central competent authorities within three months prior to the CIT return filing start date to filing due date.

To apply R&D ITC incentive for BPI, it is necessary to get the Ministry of Economic Affairs approval as a biotech and pharmaceutical company.

To claim the relevant R&D relief, taxpayers should submit the prescribed application form along with relevant supporting documents to the competent tax authorities within the CIT return filing due date.

R&D tax relief

Other relevant information

Scope of R&D expenditure

Eligible R&D expenditure mainly consists of the following (the scope to be applicable depends on the application of the incentive law):

- Salaries of full-time R&D staff
- Expenditures of consumable equipment, materials, and samples provided especially for R&D purposes
- Fees or amortization for patents, special technology, or copyrights exclusively purchased or used for R&D purposes
- Expenses for professional or particular database, software programs, and systems incurred exclusively in the R&D activities
- Training costs in respect of full-time employees engaged directly in R&D activities.

Other grants and incentives

SII

Under SII, the eligible entities could alternatively elect to deduct up to 200 percent of their R&D expenditures against their current year's taxable income, capped at corresponding income received from assignment or licensing of own-developed intellectual property rights.

Further, under SII, for eligible companies of forward-looking innovative R&D ITC, which purchase of brand-new machinery or equipment used in advanced manufacturing process and the purchase amount reaches a certain threshold, can enjoy credit up to 5 percent of purchase amount against their current year's CIT and is capped at 30 percent of CIT payable.

BPI

Where biotech and pharmaceutical companies have invested in brand-new machinery, equipment, or system, for such investment amount of between NT\$10 million and NT\$1 billion spending in the same taxable year, can choose either one of the below:

- Credit up to 5 percent of the investment amount against their CIT payable in the current year in which CIT is payable
- Credit up to 3 percent of the investment amount against their CIT payable for a period of three years from the year in which CIT is payable.

The amount of tax credit is limited to 30 percent of the current or each year's CIT payable.

Where the biotech and pharmaceutical company is eligible for this kind of incentive as well as other types of investment credit in the same year, the total amount creditable in that year shall not exceed 50 percent of its CIT, unless it is the final year for using such credit.

Thailand

Introduction

R&D-related incentives and tax concessions are generally available under the Revenue Code and the Board of Investment (BOI) regulations.

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Overview of R&D incentives granted by the Thai Revenue Department

Depreciation at the rate of 40 percent applied to the cost at the date of acquisition for all companies.

Up to double deduction of R&D expenditure on R&D conducted internally and/or paid to the above government or private agencies.

Definition of R&D

R&D activities may consist of the following:

- Basic research
- Experimental or theoretical research undertaken primarily to acquire new knowledge, without any particular application or use in view
- Applied research
- Research undertaken in order to acquire new knowledge, which is directed primarily toward a specific, practical aim or objective
- Experimental development
- Systematic research by drawing on existing knowledge to produce new products or processes or to improve existing products or processes
- Product innovation
- Invention of a new or improved product or service, both in characteristics and application. This includes improvement to technical specifications, designs, or materials, including user-friendly software and other applications
- Process innovation
- Invention of new or improved production process or product delivery, including change in techniques, equipment, or software.

Eligibility requirements

Normally, legal entities and partnerships subject to Thai CIT are eligible.

Special depreciation deduction (all companies)

R&D tax relief

Bonus deduction up to 100 percent of the cost of machinery and accessories using in the R&D project in the year the asset is acquired, in addition to 20 percent annual depreciation.

Depreciation for the cost of a vehicle, with less than 10 seats, used as a prototype for R&D or performance testing should be allowed without applying the normal depreciable asset cap of THB1 million per vehicle.



Eligibility requirements

Machinery and accessories used in R&D that meet the following criteria:

- They are not for manufacturing goods or providing services
- They are not secondhand and have a useful life of two years or more
- Their cost is not less than THB100,000.

Special deduction of R&D expenditure (all companies)

R&D tax relief

Up to double deduction of R&D expenditure on R&D conducted internally and/or paid to the government or private agencies.

Eligibility requirements

R&D expenditure paid to government or private agencies that are approved providers for R&D services conducted in Thailand.

Registration/Claim process

Deduction process of R&D expenditure

An R&D project should be submitted to the National Science and Technology Development Agency (NSTDA). The NSTDA's approval is required before claiming R&D-related tax deductions.

The approval is not required if certain conditions are met (e.g., the applicant has been approved to conduct research for a similar project by the NSTDA and the new project value does not exceed THB3 million).

R&D registration

An application to be treated as a person conducting qualifying R&D services must be submitted to the Thai Revenue Department (TRD) for exemption on R&D service income. The proposed R&D activities should also be submitted to the NSTDA for approval.

R&D tax relief

Other relevant information

The TRD may from time to time update its R&D regulations depending on the government's policy.

Overview of R&D incentives granted by the BOI

Net profit derived from promoted R&D activity may be entitled to exemption from, and reduction of, CIT for a fixed period of time.

Machinery and certain materials imported for use in R&D may be exempt from import duty.

Definition of R&D

- *Basic research* – Theoretical or operational activities that are conducted to obtain new knowledge from basic natural phenomena and factual observation, without initially considering any possible application
- *Applied science* – Research that applies basic knowledge to solve or to develop a concept for commercial purpose, with objectives to obtain a new product or process. Applied research includes related activities, such as formula development, product design, and production process design for future use in an industrial or commercial level.
- *Pilot development* – Activities performed to magnify a production scale from basic research and applied research. Pilot development includes a production of prototype and/or production process testing in a semi-industrial level to test market and/or collection of suitable conditions used for product development or production process design in industrial level.
- *Demonstration development* – R&D that further magnifies a pilot study with objectives to test a production process in industrial level, to verify reliability of technologies in the industrial production process, and to demonstrate the stability of the process and production capability in both quality control and cost estimation.
- *R&D under targeted core technology development activities including:*
 - Biotechnology development
 - Nanotechnology development
 - Advanced material technology development
 - Digital technology development

Eligibility requirements

A company registered in Thailand is eligible to obtain an investment incentive from the BOI.

Tax incentives (available to all companies conducting R&D)

R&D tax relief

Net profits derived from a BOI-approved R&D activity should be entitled to CIT exemption or reduction for a fixed period of time. Dividends paid from profits from a tax-exempt business no later than six months after expiration of the tax exemption period should be exempt from dividend withholding tax.

New R&D projects approved by the BOI, having a projected investment value of at least THB200 million should be entitled to enhanced CIT exemptions. Generally, CIT incentives are based on the amount of the capital invested in a project; for this R&D incentive, the potential CIT exemption amount is 200 percent of the investment capital.

Eligibility requirements

Any company that has been granted an investment incentive by the BOI to conduct R&D

Import duty exemption (all companies conducting R&D)

R&D tax relief

Machinery and certain materials imported for use in R&D may be exempt from import duty.

Eligibility requirements

Any company that has been granted an investment incentive by the BOI to conduct R&D

Additional year(s) for CIT exemption (all BOI companies)

R&D tax relief

CIT exemption year in addition to existing CIT exemption for main BOI-promoted business

The normal CIT exemption period allowed for a BOI-promoted project should be extended based on the amount of R&D spent.

Eligibility requirements

Any company granted an investment incentive from the BOI in any business category that intends to invest in research, technology development, and innovation

Registration/Claim process

Registration

Applications for investment incentive must be made to the BOI. Upon approval, companies are entitled to the CIT exemption/reduction.

Claiming the concession

An application for CIT exemption must be filed with the BOI before filing the tax return.

R&D tax relief

Other relevant information

BOI may from time to time update its R&D regulations depending on the government's policy.

Overview of Pillar Two development

Recent development

Thailand is expected to adopt Pillar Two under the BEPS framework on global minimum tax with effect from January 1, 2025.

The TRD recently received public commentaries on the government's draft Pillar Two legislation. The legislation is in the process of enactment.

Türkiye

Introduction

The Turkish government offers a comprehensive investment incentives program with a wide range of instruments that helps to minimize the up-front cost burden and accelerate the returns on investments.

These incentives may also be tailored for projects in priority sectors classified as key areas for the transfer of technology and economic development. In addition, the Turkish government provides generous support programs for R&D and innovation projects, employee training initiatives, and for exporters through various grants, incentives, and loans. The latest iteration of the R&D and Design Incentives program was implemented in 2016.

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Overview of R&D incentives

R&D and design incentives program and support mechanisms are provided to companies carrying out R&D and innovation through:

- R&D Law: providing tax benefits for R&D centers and design centers, through:
 - 100 percent R&D/design deduction (with 50 percent incremental deduction)
 - 50 percent Social Security Premium Support (employers share)
 - 95 percent, 90 percent or 80 percent income tax exemption
 - Custom duty exemption
 - Stamp duty exemption
- Technology development zones incentives provide tax benefits for companies that are located in techno parks, through:
 - CIT exemption
 - 50 percent Social Security Premium Support (employers share)
 - 100 percent income tax withholding exemption
 - Custom duty exemption
 - Stamp duty exemption
 - VAT exemption
- The Scientific and Technological Research Council of Turkey (TUBITAK) provides grant opportunities for research, technology development, and innovation activities through cash support.

Definition of R&D

Turkey has broad eligibility criteria for the R&D tax incentive, and there is no limit on the industries that may qualify as an eligible claimant. The definition of R&D includes the following:

- *R&D activity*: R&D is an activity increasing the information composed of; intelligence of culture, human and society, and creative studies. The R&D must be conducted in a systematic basis for using it in order to conceive a new process, system and application, product design, or software activities compatible with environment and activities providing scientific and technological developments in its own field. The R&D should focus on technological and scientific uncertainty, having empirical, scientific, and technological content and which its outputs are original.



- *Innovation activities*: They are activities that include the processes of meeting the social and economic needs that create new markets, which are offered to the existing markets successfully and which are offered to the existing markets successfully; constituting with the idea of a new product, service, application, method, or working model and the consequence of the processes.
- *R&D center*: Limited liability entities, stock corporations, or legal entities that have a business center based in Turkey, employing at least 15 equivalent R&D staff or 10 equivalent design staff solely organized making R&D activities domestically with sufficient R&D knowledge and ability.
- *Technology centers*: In the scope of the Law No. 3624, technology development centers are collecting, evaluating, developing, and intending for implementation support information that based on new and advanced technology and setup or established enterprises, which have R&D and innovation project in the scope of Presidency of Developing and Supporting Small and Medium Size Industry Administration (KOSGEB) and innovation supports by using the opportunities of universities and research centers.
- *R&D project*: The projects are determined and prepared in the framework of scientific principles and in a condition that determines each stage of the R&D activities. The following elements need to be considered when determining an R&D project; aim, scope (general and technical), budget, special conditions, amount of assistance in kind and in cash provided by natural and legal persons and principles of sharing intellectual property rights.

- *Cooperation projects before precompetition:* Projects and R&D activities that have scientific and technological characteristics executed by more than one entity with the aim of benefiting from economies of scale can also benefit from the R&D incentive. Entities enter into a cooperation agreement, which is dependent upon feasibility of establishing a platform or developing a system or common material for providing more added-value tax than the current situation.

R&D tax relief

R&D legislation includes:

- Law No. 5746 on Support for Research, Development and Design Activities
- Law No. 4691 on Technology Development Zones.

1. R&D deduction

- R&D expenditures incurred in the enterprises functioning as technology centers
- R&D expenditures incurred in the R&D centers
- Public institutions, R&D and innovation projects supported by public enterprises and establishments, foundations established pursuant to the Law, or projects that supported by international funds
- Precompetition cooperation projects
- Enterprises benefit from the capital support provided to techno enterprises All of the R&D and innovation expenditures mentioned above
- One-half of the increase in expenditures compared to the previous year at R&D centers that recruit 500 and more equivalent full-time R&D personnel is made subject of discount while determining the corporate income and trade income in accordance with Article 10 of Corporate Tax Law and Article 89 of Income Tax Law.

Besides, these expenditures shall be redeemed by depreciation through the Tax Procedure Law (Law No: 213). When there is no economic asset created, these expenditures shall be directly recorded as an expense. The R&D discount that was not made the subject of discount in the related FY due to the inadequacy of profits can be transferred to the following FYs. The transferred amount shall be increased by the revaluation rate determined for each year according to Law No: 213 in the following years. **(Law No: 5746 a.3/1)**

2. Income tax withholding incentives

Wages of R&D and backup staff, except public servants recruited in the following enterprises, are exempt from income tax at a rate of 95 percent for staff with PhD degrees, 90 percent for staff with MSc degrees, and at a rate of 80 percent for the other staff:

- Staff recruited in enterprises that function as technology centers
- Staff recruited in the R&D centers
- Staff recruited in R&D and innovation projects supported by public enterprises and establishments and foundations established pursuant to the law or projects that are supported by international funds
- Staff recruited in R&D and innovation projects undertaken TUBITAK
- Staff recruited in enterprises that are entitled to benefit from the capital support provided to technological enterprises
- Staff recruited in precompetition cooperation projects.

Besides, the income tax calculated after applying income tax exemption corresponding to the minimum wages of R&D and backup staff stated in the 5746 Numbered Encouragement of Research and Development Law are canceled at a rate of 95 percent for staff with PhD degrees, 90 percent for staff with MSc degrees, and at a rate of 80 percent for the other staff, by deducting from the tax assessed over withholding tax return.

3. Insurance premium support

For each employee, one-half of the insurance premium of the employer, which is calculated over the wages of the R&D and backup staff gained in the scope of the R&D and innovation activities, shall be funded by a budget of the Ministry of Finance for five years. The insurance premium of personnel, whose wages are exempted from income tax pursuant to provisional Article 2 of Law numbered 4691 concerning Technology Developing Zones, calculated over their exempted wages and one-half of the employer's share of insurance premium, shall be funded by a budget of the Ministry of Finance. **(Law No: 5746 a.3/3)**

4. Stamp duty exemption

All documents drawn up in connection of all types of R&D and innovation activities pursuant to Law numbered 5746 have been exempted from stamp duty. **(Law No: 5746 a.3/4)**

5. Techno enterprise capital support

In order to support the transformation of technology and innovation-oriented business ideas to enterprises having high potential in creating added value and qualified staff, techno enterprise capital support of up to 100,000 TL shall be granted for once without the demand for a guarantee. The techno enterprise capital support shall be granted to persons having formal education or who will graduate university from any field in one year; master's degree students; doctorate degree students; or had the bachelor's, master's, or

doctorate degrees maximum of five years ago before the preapplication date. (**Law No: 5746 a.3/5**)

R&D claim/application process

Implementation of R&D deduction

- R&D deduction shall be applied for both annual and advance tax return from the beginning of R&D activity. Calculated R&D deduction amount shall be deducted from profit writing by related taxpayers into line of provisional tax return and annual income (corporation) tax return. The amount of R&D deduction that could not be a matter of deduction because of inadequacy of income shall be transferred to the oncoming FYs.
- There are certain methods for monitoring R&D expenditure in records, accounting in the R&D project, and transfer of capitalized assets
- The method to follow in the implementation of R&D deduction includes the following:
 1. Enterprises, which benefit from R&D deduction, shall submit those documents attached to annual income or corporate tax return to the tax offices that they are linked. Those documents are needed to be approved by foundations, R&D centers, innovation and R&D projects supported by public institutes and foundations that are established by law or international funds or executed by TUBITAK (see the process below), and enterprises that are using technology capital support and the ones who work on precompetition cooperation projects.
 - a) R&D centers, which shall benefit from R&D deduction for the first time under the law, are asked for “R&D Centre Certificate,” and those that will benefit from project-based R&D deduction are asked for “R&D and Innovation Project Evaluation Report” or “Pre-competition Cooperation Evaluation Report and Audit Commission Decision or Project Agreement.” However, the companies that submitted R&D center document or R&D and innovation project evaluation report to the tax office previously and kept on R&D deduction are not asked to resubmit these documents in the following taxation terms.
 - b) Documents regarding the R&D and innovation project and precompetition project or projects and the project agreement and its attachment, business plan approved by the public administration under the central management giving the assistance for the enterprises benefiting from technological capital assistance, and the documents indicating at which stage R&D and innovation projects have been carried at the R&D centers and technology center companies, and the documents regarding the implementation of these projects or business plan.
 - c) The list indicating the annual and detailed presentation of the expenditures being subject to R&D deduction under main groups
 - d) The list indicating the number and qualifications of the staff employed at R&D centers and technology center companies regarding projects, which benefit from assistance of R&D and innovation project or projects and precompetition cooperation projects and techno enterprises capital assistance, and task durations of the staff, their salaries, and tax amounts withheld and exempted
 - e) The list consisting of person/entity name providing services, citizenship/tax identity number, character of the service received, invoice date, number, amount, and stoppage and VAT amount regarding the assistance, expertise, and similar services taken from outside.
 1. To implement the R&D deduction at the R&D centers and precompetition cooperation projects, it's obligatory to give sworn certified public accountant approval report including the necessary documents specified in the first subparagraph to the tax office related to and in the term specified in the legislation, and documents mentioned above should not be asked with the return separately for the R&D centers and precompetition cooperation projects.
 2. If documents specified in the first subparagraph have been submitted and attached to the full approval report, it is not required to edit an approval report additionally regarding the R&D deduction.

Office of application, necessary documents, and other particular points

- Two copies of the report to be prepared in the specified format related to R&D activities shall be sent to the Revenue Administration by hand or mail, being attached to a letter.
- After making a general assessment of the report, the administration shall transmit the project to TUBITAK and/or universities and entities specialized in the field of the subject being researched to determine whether the project is aimed exclusively at a new information and technology search. A letter shall be sent to the taxpayer to make them pay an amount at 0.3 percent of the project budget to the institute carrying out the examination;

however, the amount shall not exceed the 15.000 TL.

- Upon examination of the R&D project, the institution shall ask for the information and documents necessary; if needed, have the experts of their own or other institutions made the necessary examinations in a short term and send a copy of an assessment report to the Revenue Administration and the owner of application.
- There shall be no need for a reexamination regarding the projects examined by TUBITAK before. In this context, it is not required for the taxpayers, who have their projects examined and approved by TUBITAK, to apply to the Revenue Administration for another examination, and it shall be sufficient for them to attach the copies of R&D assessment reports to the sworn in certified public accountant approval report.

Other relevant information

The Turkish government passed an extensive support package for R&D and innovation-related activities in an effort to become the following:

- An innovation-driven, high-tech economy, effective March 1, 2016. The key elements of the package included:
- The establishment of design centers that will benefit from the same level of incentives as R&D centers. Design-related activities conducted in technology development zones (TDZs) are also to be supported.
- Tax deductions for companies engaged in R&D and design, including SMEs that contract such services to outside parties
- A reduced staff requirement to establish an R&D center to 15 persons from 30
- The state will underwrite a portion—equaling the gross total of the minimum wage in Turkey—of researchers' wages for a duration of two years, provided they are employed by an R&D center and are graduates of basic sciences
- Tax deduction and grants for precompetition cooperation projects in order to encourage joint projects
- Customs duty exemptions for materials obtained from abroad within the scope of R&D, innovation, and design projects
- The establishment of specialized TDZs for priority and strategic sectors (ICT, healthcare, biotech, nanotech, defense and aerospace, etc.) in order to form focused R&D organizations
- Researchers employed in TDZs, R&D centers, and design centers will benefit from exemptions during site studies and postgraduate educational activities abroad

- Tax deductions for companies that provide venture capital for start-ups established using the Techno-Initiative Capital Support Program in TDZs
- Increasing the sum of techno-initiative capital support to TRY500,000 from TRY100,000, depending on the project while extending the application period to 10 years from the date of the founder's graduation
- Creating a system of standardization and authorization for software projects
- Exemption from income tax cuts for faculty members who take part in university-industry cooperation projects. The income tax cut from the university's floating capital is limited to 15 percent with the remaining 85 percent payable to the faculty member.

Other grants and incentives

Institutions providing cash supports on project basis:

- TUBITAK

The application is evaluated by TUBITAK and approved as granted R&D project if all requirements are satisfied. R&D projects approved by TUBITAK are benefited 60 percent grant (at maximum) of the project's total expenses including personnel costs, materials to be used, outsource consultancy, travel, and general expenses.

- Ministry of Industry, and Technology
- Small and Medium Industry Development Organization (KOSGEB)
- Development Agency
- European Commission.

United Kingdom

Introduction

The UK R&D incentives regime continues to be enhanced and expanded, resulting in a generous set of incentive measures. The regime aims to increase UK productivity by encouraging scientific and technological innovation in the UK.

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Overview of R&D incentives

Companies can claim for qualifying R&D costs through the Research & Development Expenditure Credit (RDEC) regime. This scheme provides an above-the-line, taxable credit at a rate of 20 percent of qualifying expenditure. The scheme provides additional support for loss-making claimants and further enhanced relief for R&D-intensive Small to Medium Enterprises (SMEs).

For accounting periods starting before April 1, 2024, separate legacy regimes were in place for SMEs and large companies. Please reach out to your KPMG in the UK contact for further information.

Definition of R&D

The definition of R&D is contained within the Department for Science, Innovation & Technology (DSIT) guidelines, which are themselves derived from the OECD Frascati principles for defining R&D. For a project to qualify, it must involve the seeking of an advance in science or technology through the resolution of scientific or technological uncertainty.

Scientific or technological advances include the extension of knowledge or capability in a field of science or technology, which includes pure mathematics. This could be, for example:

- The creation of a new device or process
- Appreciable improvements to existing devices or processes
- The development of a fundamentally different way of achieving a technological objective.

The project does not have to be a success for it to be relevant, eligible R&D activity.

Scientific or technological uncertainty exists when knowledge of whether something is scientifically possible or technologically feasible, or how to achieve it in practice, is not readily deducible by a competent professional working in the field. This uncertainty often arises during the process of taking scientific principles and developing them into cost-effective and reliable technologies. If the technical challenge is readily deducible by competent professionals in the field, then it is unlikely to be R&D.



R&D expenditure credit and R&D tax relief

For accounting periods starting on or after April 1, 2024, the UK has introduced a single merged R&D regime for large companies and SMEs alike. Claimants can claim a taxable above-the-line credit of 20 percent of qualifying R&D expenditure, which must be used to settle corporate or other tax liabilities due to the revenue authority before any cash amount becomes payable to the company. The scheme also provides further enhanced support for loss-making R&D-intensive SMEs.

It is only the R&D proportion of any mixed expenses that can be claimed. The qualifying cost categories for RDEC are:

- Staff costs
- Payments to externally provided workers
- Subcontracted R&D costs
- Costs of consumable materials used or transformed in the R&D and not sold on, which includes utilities
- Data, cloud computing, and software license costs used for R&D purposes.

Where the claimant is undertaking R&D that is contracted to it by a customer, that R&D activity is broadly not claimable. Due to the complexities around this area, we would advise seeking advice from KPMG on this matter.

For accounting periods starting before April 1, 2024, separate legacy regimes were in place for SMEs and large companies.

Eligibility requirements

Not all the detailed rules can be covered here, but the main requirements are the following:

- The expenditure generally must be deductible in computing the profits of a UK trade subject to corporation tax
- The expenditure must be revenue in nature for tax purposes
- The expenditure must be relevant to the trade of the company
- The expenditure must fall within eligible categories of expenditure
- For accounting periods beginning on or after April 1, 2024, the R&D activity must take place in the UK. There is an exception where it would be wholly unreasonable to undertake the R&D in the UK due to factors including geography, environment, or social or where there are regulatory or legal requirements for certain activities to take place in specific territories (for example, clinical trials).

For accounting periods beginning on or after April 1, 2023, companies that have never made a claim or not made a claim within the previous three years will need to notify HMRC within six months of the end of the first accounting period being claimed.

Exclusions from R&D scheme

- The cost of materials consumed or transformed into products in the course of R&D activity, which are later sold to a third party, is not eligible for relief
- Where the expenditure is on producing goods or services for sale, there may be a need to consider the boundary between R&D activities and ineligible production activities
- Costs incurred on acquiring intellectual property are not eligible.

Registration/Claim process

Claims are made within the corporation tax return. For first-time claimants or companies that have not claimed for three years, a notification must be made to HMRC within six months of the end of the period for which the company wishes to make a claim, i.e., if the company wishes to make a claim for the period ending December 31, 2024 and hasn't claimed previously, they must make a notification by June 30, 2025.

The R&D incentive must be claimed within two years of the end of the accounting period in which the expenditure was incurred. This can be done within the original corporation tax return or by amendment to the return within the time limits. Claims are examined by the tax authorities. It is a requirement to involve the company's own competent technology professionals in the R&D identification, as this provides some assurance

to the tax authorities as to the scientific or technological merits of the claim.

For claims submitted from August 8, 2023, HMRC has introduced specific requirements for information that should be provided alongside a claim. In order to be a valid claim, each claimant company must complete a prescribed HMRC form that includes:

- Administrative information including details of any advisers that have assisted with the preparation of the claim and the individual at the claimant company responsible for the claim
- Qualifying expenditure information including a breakdown of the claim by cost category and disclosure of any qualifying indirect activities
- Technical information including details of projects included in the claim and how this project meets the R&D criteria and details of any third parties who worked on the project. Depending on the number of projects in the claim, each claimant company will need to provide details on up to 10 projects.

Other grants and incentives

For R&D expenditure classified as capital for tax purposes, there is a regime of R&D Allowances (RDAs). This scheme provides an immediate 100 percent deduction of capital R&D expenditure against taxable profits. All expenditure excluding expenditure on land is potentially eligible.

The Patent Box regime applies an effective 10 percent tax rate on profits generated from patented innovation (which is significantly lower than the main corporation tax rate of 25 percent). This regime is intended to operate in conjunction with the R&D regime to provide a unified and attractive environment in the UK for the carrying out and exploitation of R&D. Benefits are only available in proportion to the amount of R&D activity undertaken by the claimant in developing the IP or the product incorporating it. Additional administrative requirements need to be satisfied in order to benefit, but the effective tax rate of 10 percent is unaffected.

The UK Government and devolved nations provide a variety of funded support programs to encourage R&D, and innovation investment, across a range of scientific and industry themes including sustainability, net zero/ decarbonization, data, AI and digital. The funding programs are continuously updated and are derived from a cross section of government departments and agencies and are typically delivered as competitions with specific start and end dates for applications and activity.

United States

Introduction

Research and experimentation costs (R&E) a/k/a research and development (R&D) costs have incentive treatment provisions in the US tax code, that is the Internal Revenue Code. The terms R&E and R&D are seen as synonymous by most tax practitioners. Section 41 provides a tax credit for increasing research expenditures over a baseline amount, and although the R&D credit had previously had various sunset provisions, it currently has no expiration date. The R&D credit is calculated on a controlled group (greater than 50 percent ownership test) basis so that all members of a controlled group are treated as a single taxpayer, and the group credit is allocated to members of the group pro rata based upon credit determination year qualified research expenditures (QREs) (types of QRE are described herein). Although the US tax code provides a credit for increasing research activities, Section 174 currently requires that taxpayers capitalize their R&D costs whether they take a credit or not. Prior to tax years beginning after December 31, 2021, taxpayers could fully expense all R&D costs. Unlike the Section 41 credit that only provides credit for research conducted in the United States, Section 174 requires capitalization of all R&D costs including foreign costs. Under Section 174, costs for research conducted in the United States are capitalized and amortized over five years and costs for research conducted outside of the United States are capitalized and amortized over 15 years.

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Overview of R&D incentives

R&D Credit Section 41

Section 41 provides a tax credit for increasing research expenditures over a baseline amount, and there are two calculation methods:

- The traditional or regular research credit (RRC), which provides for a 20 percent gross credit on the excess of the current year QREs over the base amount
- The alternative simplified credit (ASC) provides for a 14 percent gross credit on the excess of the current year QREs over the base amount.

Definition of R&D

Section 174

The term research or experimental expenditures, as used in section 174, means expenditures incurred in connection with the taxpayer's trade or business that represent R&D costs in the experimental or laboratory sense. In addition, section 174 includes all software development. The term generally includes all such costs incident to the development or improvement of a product. The term includes the costs of obtaining a patent, such as attorneys' fees expended in making and perfecting a patent application. Expenditures represent R&D costs in the experimental or laboratory sense if they are for activities intended to discover information that would eliminate uncertainty concerning the development or improvement of a product. Uncertainty exists if the information available to the taxpayer does not establish the capability or method for developing or improving the product or the appropriate design of the product. Whether expenditures qualify as research or experimental expenditures depend on the nature of the activity to which the expenditures relate, not the nature of the product or improvement being developed or the level of technological advancement the product or improvement represents.

The ultimate success, failure, sale, or use of the product is not relevant to a determination of eligibility under section 174. Costs may be eligible under section 174 if paid or incurred after production begins but before uncertainty concerning the development or improvement of the product is eliminated.

Section 174 R&D expenditures do not include expenditures for:

- Quality control testing
- Advertising or promotions
- Consumer surveys
- Efficiency surveys
- 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).

The Section 41 R&D credit

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
- Substantially all of which consists of a process of experimentation: evaluating one or more alternatives.

An additional 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.

Exclusions from the R&D credit

Section 41 has exclusions from eligibility including exclusions for:

- Research after commercial production
- Adaptation of existing business component
- Duplication of existing business component
- Surveys and studies
- Foreign research
- Research in the social sciences, etc.
- Funded research
- Internal-use software, except to the extent provided in Treasury regulations.

R&D tax relief

RRC method

The gross R&D RRC is equivalent to 20 percent of the current-year QRE over the base amount.

- The base amount is the greater of the product of the fixed-base percentage and the average annual gross receipts or 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 does not exist in the United States in the base period or does not meet certain criteria for QREs 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 different calculation method—the ASC.

ASC method

The gross ASC credit is equal to 14 percent of the current-year QREs over a base amount.

- The base amount is equal to 50 percent of the average QRE for the three preceding tax years
- So, the gross 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 gross ASC credit is equal to 6 percent of the QRE for the current year.

The ASC method must generally be selected or revoked on a timely filed original tax return and is made by filing out the ASC section of Form 6765, Credit for Increasing Research.

Additional R&D incentives may be offered at the state level.

QRE categories for the R&D Credit

The expenses that may be claimed as QREs for the R&D credit are limited to:

- *(Taxable) wages*: incurred in the performance, direct supervision, or direct support qualified research activities
- *Supplies*: tangible property used or consumed in conducting the qualified research activities but not land or property that must be depreciated
- *Rental or lease of computers used in qualified research*: The computer must be located off your premises, and you mustn't be the operator or primary user of the computer. Reduce this amount by the amount that you (or any member of a controlled group of corporations or businesses under common control) received or accrued for the right to use substantially identical property.
- *Contract research*: for contract research conducted on behalf of the taxpayer in instances where the taxpayer has a right to the results of the research and is at financial risk, claimable at 65 percent (or 75 percent or 100 percent in certain situations)
- *Energy research consortia for energy research*: Energy research doesn't include any research that isn't qualified research. In general, an energy research consortium is any organization described in Section 501(c)(3), exempt from tax under Section 501(a), organized and operated primarily to conduct energy research, and not a private foundation.
- *Basic research*: This includes the amounts a corporation (not to include S corporations, personal holding companies, and service organizations) paid in cash, under a written contract, for basic research to a qualified university, scientific research organization, scientific tax-exempt organization, or grant organization. See Section 41(e) for details, including the definitions of qualified organizations.

Product

The term "product" includes:

- Formula
- Invention
- Patent
- Pilot model
- Manufacturing process
- Software
- Technique
- Similar property.

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.

If a taxpayer's current-year QREs do not exceed the base amount for that year, no R&D credit is available for that year.

Registration/Claim process

Claiming the section 41 R&D credit

There is no advance R&D credit registration or claim process. The R&D credit is claimed using Form 6765, Credit for Increasing Research Activities.

Other grants and 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. The federal government also provides many tax credits to encourage development of clean energy. 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.

Vietnam

Introduction

The Vietnamese Government has issued various policies to encourage enterprises in all sectors to invest in R&D activities with a number of tax incentives available. Furthermore, with the recently issued resolution in respect of the OECD's Pillar Two Model Rules—the Global Minimum Tax (GMT) Rules, Vietnam is expected to introduce new investment attraction measures for FDI (including FDI investing in R&D activities, which may be impacted by Pillar Two) to enhance and improve its investment competitiveness in the near future.

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Overview of R&D incentives

A company legally established under the laws of Vietnam will be allowed to use up to 10 percent of its annual taxable profit to create a fund for scientific research and technological development activities.

CIT exemption and deduction and CIT incentive rates are available for newly established companies investing in R&D activities.

Exemption from VAT and import duties is available for all companies and industry sectors when importing machinery, equipment, spare parts, and materials not domestically produced and directly used for scientific research and technological development.

Definition of R&D

Science and technology activities include scientific research, technology R&D, science and technological services, and activities of idea initiatives, technical improvement, production rationalization, and other activities that are used to develop science and technology.

Scientific research is an activity of discovering and understanding natural and social phenomena, things and rules, and thinking and creating solutions for practical implementation purposes. Scientific research includes fundamental and practical research.

Technological development is an activity that creates and improves a new technology or product. Technological development includes experimental deployment and production.

Science and technological development fund (all companies and industry sectors)

R&D tax relief

Creation of a scientific research and technological development fund funded by 10 percent of annual taxable profit.

Eligibility requirements

A company legally established under the laws of Vietnam will be allowed to use up to 10 percent of its annual taxable profit to create a fund for scientific research and technological development activities.

The company establishing the above fund must report its actual fund level and amount, and the status of using the fund together with its annual CIT return. If the fund is not used in accordance with the statutory purposes, or after five years from the date when the fund is made, if the fund is not used or not entirely used up to 70 percent, CIT liabilities in relation to the unused fund amount and the associated interest arising on such tax liabilities must be paid to the authorities.



The science and technological development fund must only be used to invest in science and technology in Vietnam, and disbursements from the above fund must be supported by legitimate invoices and supporting documents as required by law.

As the provision for R&D fund enjoys a full and outright CIT deduction when it is set up, no further deduction is allowable upon subsequent disbursements. In the event of an enterprise restructuring, the new entity that is created from such an event may inherit the R&D fund and the associated obligations to manage it. The tax authority must be notified of such inheritance.

Tax exemption (companies implementing scientific research and technological development contracts in Vietnam)

R&D tax relief

CIT exemption for a period not exceeding three years for scientific research and technological development contracts and not exceeding five years for products produced from new technology newly applied in Vietnam.

Eligibility requirements

Income derived from implementation of scientific research and technological development contracts is exempt from CIT provided that such companies are legally registered and licensed to carry out scientific research and technological development, and the contracts are certified by the relevant state science authorities as scientific research and technological development contracts. However, the exemption period will not exceed three years from the date of starting to generate revenue from such contracts.

Income derived from products produced from new technology newly applied in Vietnam is exempted from CIT up to five years from the date of sales revenue provided that the new technology newly applied is certified by the relevant state science authorities.

Tax incentives (companies investing in R&D activities)

R&D tax relief

CIT exemption and reduction and CIT incentive rates are available for newly established companies investing in R&D activities.

Eligibility requirements

Newly established companies investing in scientific research and technological development activities will be entitled to:

- Preferential CIT rate of 10 percent for 15 years from the first income-generating year
- Four years of CIT exemption commencing from the first year of taxable income and 9 consecutive years of 50 percent CIT reduction.

Effective from January 1, 2020, following special tax incentives will be granted to (i) new establishment of R&D centers with total investment capital of VND3,000 billion or more (approximately USD122 million), disbursing at least VND1,000 billion (approximately USD41 million) within three years from the date of Investment Registration Certificate (IRC); or (ii) Investment projects in specifically encouraged sectors with the amount of investment capital of VND30,000 billion or more (approximately USD1,220 million), disbursing at least VND10,000 billion (approximately USD407 million) within 3 years from the date of IRC.

- For (ii):
 - Preferential CIT rate of 9 percent within 30 years from the first income-generating year
 - Five years of CIT exemption commencing from the first year of taxable income and 10 consecutive years of 50 percent CIT reduction
- For (i) and/or (ii) qualifying one of the four criteria including (1) It is a Level 1 high-tech project; (2) there is a Vietnamese enterprise participating in the Level 1 supply chain; (3) added-value accounts for over 30-40 percent of the total cost of the final output provided by the economic organization; and (4) Meets Level 1 technology transfer criteria:
 - Preferential CIT rate of 7 percent within 33 years from the first income-generating year
 - Six years of CIT exemption commencing from the first year of taxable income and 12 consecutive years of 50 percent CIT reduction.
- For national innovation center established according to the decision of the Prime Minister and/or (ii) qualifying one of the four criteria including the following: (1) It is a Level 2 high-tech project; (2) There is a Vietnamese enterprise participating in the Level 2 supply chain; (3) Added-value accounts for over 40 percent of the total cost of the final output provided by the economic

organization (4) Meets Level 2 technology transfer criteria:

- Preferential CIT rate of 5 percent within 37 years from the first income-generating year
- Six years of CIT exemption commencing from the first year of taxable income and 13 consecutive years of 50 percent CIT reduction.

Where a company does not make taxable income after three years from the first income-generating year, the CIT exemption and reduction period will automatically start in the fourth year.

Tax deduction (all companies and industry sectors)

R&D tax relief

Qualified R&D expenses are deductible from taxable income for CIT purposes.

Eligibility requirements

Qualified R&D expenses that are fully deductible from taxable income for CIT purposes include:

- Annual recurrent expenses for research and development activities
- Expenses for training and training support for R&D labor of economic organizations, scientific and technological organizations, and training institutions in Vietnam
- Expenses for R&D cooperation with organizations and individuals; expenses for hiring or sponsoring organizations and individuals to carry out enterprise research and development projects
- Fees for copyrights and the transfer of ownership and usage rights of industrial property objects serving R&D activities; fees for registering patents or protecting inventions and utility solutions in Vietnam
- Depreciation of investments in infrastructure and fixed assets for R&D activities.

Eligible R&D expenditure must arise from R&D activities conducted in Vietnam and must be substantiated by proper invoices and supporting documents.

Exemption of VAT and import duties

R&D tax relief

Exemption from VAT and import duties is available for all companies and industry sectors when importing machinery, equipment, spare parts, and materials not domestically produced and directly used for scientific research and technological development.

Eligibility requirements

Machinery, equipment, spare parts, and materials that are imported and directly used for scientific research and technological development and are not domestically produced will be exempted from VAT at the import stage.

In addition, machinery, equipment, spare parts, and specialized materials that are imported and directly used for scientific research and technological development and are not domestically produced will be exempted from import duties.

Registration/Claim process

The company establishing the fund of science and technological development must report its actual fund level and amount and the status of using the fund together with its annual CIT return.

In the event of an enterprise restructuring, the new entity that is created from such an event may inherit the R&D fund and the associated obligations to manage it. The tax authority must be notified of such inheritance.

Other grants and incentives

Land rental reduction is available for newly established companies investing in scientific research and technological development activities.

Effective from January 1, 2021, projects on establishment (including the expansion of such establishment project) of innovation centers and R&D centers with a total investment capital of at least VND3,000 billion (approximately USD122 million) and disbursing at least VND1,000 billion (approximately USD41 million) within three years from the issuance date of the investment registration certificate or the approval for investment guidelines will be entitled to following special incentives:

- Assistance in development of technical infrastructure and social infrastructure inside and outside the perimeter of the investment project
- Assistance in training and development of human resources
- Credit assistance
- Assistance in access to business premises; assistance in relocation of business establishments under decisions of regulatory agencies
- Assistance in science, technology, and technology transfer
- Assistance in market development and information provision
- Assistance in research and development.

Note: exchange rate USD/VND=24,600

Impact of Pillar Two on R&D tax relief

On November 29, 2023, the National Assembly of Vietnam has passed the resolution in respect of the OECD's Pillar Two Model Rules—the GMT Rules. The Resolution will come into effect from January 1, 2024.

There are alternative incentives/supports proposed by the Vietnam Ministry of Planning and Investment (MPI) to enhance attraction for FDI (including FDI investing in R&D activities, which may be impacted by Pillar Two). Currently, a draft Decree on investment support fund is being under consideration.

Appendix

European Union Research and Development Funding

Introduction

The European Union (EU) plays a pivotal role in fostering R&D across its 27 member states through a variety of funding programs. These initiatives are designed to promote innovation, drive economic growth, and address key societal challenges, including climate change, health, and digital transformation.

One of the primary mechanisms for EU R&D funding is **Horizon Europe**, the EU's flagship research and innovation program with a budget of €95.5 billion for the period 2021–2027. This program supports a wide range of projects from fundamental research to market-ready innovations. It aims to ensure Europe produces world-class science, removes barriers to innovation, and makes it easier for the public and private sectors to work together in delivering solutions to big challenges.

The **Recovery and Resilience Facility** (RRF) is a central component of the EU's response to the economic and social impact of the COVID-19 pandemic, with a significant emphasis on supporting R&D. By providing €723.8 billion in grants and loans to member states, the RRF aims to foster **innovation**, accelerate the **digital** and **green** transitions, and enhance the EU's global **competitiveness**.

Other **significant** funding programs include the **Innovation Fund**, providing support for Low-Carbon Technologies; the **Just Transition Fund**, supporting regions and communities most affected by the transition toward a climate-neutral economy; the **LIFE Programme**, focusing on environmental and climate action; and the **Digital Europe Programme**, which aims to bolster digital technology infrastructure and usage. The **European Defence Fund** fosters and enhances defense capabilities across member states through collaborative R&D projects. Programs such as **Erasmus+** support educational exchanges and partnerships, while the **Connecting Europe Facility** funds infrastructure projects in transport, energy, and digital.

These funding opportunities are available through various types of management: **direct management** by the European Commission, **shared management** with national authorities, and **indirect management** by third parties. Each program has specific eligibility criteria, application processes, and objectives tailored to different types of projects and organizations, from **SMEs** to **large enterprises** and research institutions.

The overarching goal of EU R&D funding is to enhance the EU's **competitiveness**, ensure **sustainable development**, and improve the **quality of life** for its citizens. Through collaborative projects and a focus on innovation, the EU continues to support cutting-edge research and the development of new technologies that drive progress across Europe and beyond.

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Overview of grants and incentives

Horizon Europe Funding Program overview

Aspect	Details
Objective	To support research and innovation, ensuring Europe produces world-class science, removes barriers to innovation, and fosters public-private collaboration
Total budget	€95.5 billion
Duration	2021–2027
Key areas of focus	Health, culture, creativity and inclusive society, civil security for society, defense R&D, digital, industry and space, climate, energy and mobility, food, bioeconomy, natural resources, agriculture and environment
Eligibility	Researchers, SMEs, large enterprises, public bodies, NGOs, and individuals
Application process	Submit project proposals in response to calls for proposals, which are evaluated based on criteria such as excellence, impact, and quality.
Types of funding	Grants, prizes, loans, and equity
Management	Direct management by the European Commission

In addition to **Horizon Europe**, several **other EU funding programs** support various sectors and activities.

Below is an overview of notable funding programs:

1. LIFE Programme

- Objective: Environment and Climate Action
- Total budget: €5.4 billion
- Eligibility: Public bodies, NGOs, and private companies
- Key areas of focus: Nature and biodiversity, circular economy and quality of life, climate change mitigation and adaptation, and clean energy transition.

2. Just Transition Fund

- Objective: To support regions and communities most affected by the transition towards a climate-neutral economy by diversifying local economies and reskilling workers
- Total budget: €17.5 billion
- Eligibility: Regions heavily dependent on fossil fuels and carbon-intensive industries, local and regional authorities, public bodies, businesses, and workers
- Key areas of focus: Renewable energy, energy efficiency, sustainable transport, social infrastructure, economic diversification, and reskilling and upskilling of workers.

3. Connecting Europe Facility (CEF)

- Objective: Transport, energy, and digital networks
- Total budget: €33.7 billion
- Eligibility: Member states and infrastructure projects
- Key areas of focus: Building efficient, interconnected, and sustainable trans-European networks.

5. European Regional Development Fund (ERDF)

- Objective: Regional development
- Total budget: €226.3 billion
- Eligibility: Local and regional authorities
- Key areas of focus: Innovation and research, digital agenda, support for SMEs, and low-carbon economy.

6. European Social Fund Plus (ESF+)

- Objective: Social inclusion and employment
- Total budget: €88 billion
- Eligibility: Public and private organizations
- Key areas of focus: Employment opportunities, social inclusion, education, skills, and lifelong learning.

7. InvestEU

- Objective: Investment support
- Total budget: €26.2 billion
- Eligibility: Businesses and financial institutions
- Key areas of focus: Sustainable infrastructure, research, innovation and digitization, SMEs, social investment, and skills.

8. EU4Health Programme

- Objective: Health and well-being
- Total budget: €5.1 billion
- Eligibility: Health organizations and member states
- Key areas of focus: Crisis preparedness, disease prevention, health systems and healthcare workforce, and digital transformation in health.

9. Innovation Fund

- Objective: Support for low-carbon technologies
- Total budget: €10 billion
- Eligibility: Large Enterprises, SMEs, Public Entities
- Key areas of focus: Renewable energy, energy-intensive industries, energy storage, carbon capture and storage.

10. European Innovation Council (EIC)

- Objective: Innovation for Enterprises
- Total budget: €10 billion
- Eligibility: start-ups, SMEs and large enterprises
- Key areas of focus: Breakthrough technologies and innovations with high potential.

11. COSME

- Objective: Competitiveness of enterprises and SMEs
- Total budget: €2.3 billion
- Eligibility: SMEs and entrepreneurs
- Key areas of focus: Access to finance, access to markets, supporting entrepreneurs, and more favorable conditions for business creation and growth.

12. Creative Europe

- Objective: Support for cultural and creative sectors
- Total budget: €2.4 billion
- Eligibility: Cultural and creative organizations
- Key areas of focus: Media, culture, and cross-sectoral activities.

13. Digital Europe Programme

- Objective: Digital transformation
- Total budget: €7.6 billion
- Eligibility: Tech companies, SMEs, and public bodies
- Key areas of focus: High-performance computing, artificial intelligence, cybersecurity, advanced digital skills, deployment, and best use of digital capacities.

14. European Maritime and Fisheries Fund (EMFF)

- Objective: Sustainable fisheries and aquaculture
- Total budget: €6.1 billion
- Eligibility: Fisheries and aquaculture enterprises
- Key areas of focus: Sustainable fisheries and aquaculture, conservation of marine biological resources, and sustainable blue economy.

15. Erasmus+

- Objective: Education, training, youth, and sport
- Total budget: €26.2 billion
- Eligibility: Students, Educational Institutions, Youth Organizations, Sports Organizations
- Key areas of focus: Mobility of learners and staff, partnerships for cooperation, policy development and cooperation.

16. European Defence Fund (EDF)

- Objective: To support the competitiveness and innovation capacity of the EU defense industry.
- Total budget: €8 billion
- Eligibility: Defense companies, research organizations, and consortia involving multiple member states
- Key areas of focus: Collaborative defense research projects; development of defense products and technologies; encouraging cross-border cooperation among member states and between industries; and funding projects that can lead to the development of defense capabilities to ensure security and strategic autonomy.

These programs collectively aim to promote economic growth, innovation, sustainability, and social inclusion across the EU.

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