Global R&D Incentives Guide

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Preface

KPMG 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 50 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; and

— 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; and

— Planning for future investments and decisions.

Growth Phase

— Maximizing credits/incentives; and

— Structuring to optimize benefits and other tax positions impacted by investments.

Maturity Phase

— Automating processes;

— Controversy and sustaining incentives; and

— 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.

KPMG Global Research & Development Services Team

The R&D Incentives practice at KPMG is comprised of 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 maximizing 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 status and transfers;

— Withholding taxes;

— Cross border tax considerations;

— Foreign tax credits; and

— 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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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 Survey, 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.
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/intellectual property (IP) box regime taxes business income earned from IP at a rate below the statutory corporate income tax 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.

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
Argentina	■	■		■		■	■
Australia	■		■				■
Austria	■			■			■
Belgium	■	■	■	■	■	■	■
Brazil		■	■		■	■	■
Canada	■			■	■		■
Chile	■	■	■	■			
China		■		■			■
Colombia	■	■		■			■
Croatia		■		■			■
Czech Republic		■		■			■
Denmark	■	■					■
Finland		■	■	■		■	
France	■		■	■	■	■	■
Germany	■			■			

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
Greece		■		■	■		
Hong Kong (SAR), China		■					
Hungary	■	■		■	■	■	■
Iceland	■			■			
India		■		■	■	■	■
Ireland	■		■	■	■	■	■
Israel		■		■	■	■	■
Italy	■	■			■		
Japan	■			■			
Lithuania	■	■	■				■
Luxembourg	■		■	■	■		■
Malaysia		■		■	■		■
Mexico	■			■			
Netherlands	■	■	■	■	■	■	■
New Zealand	■			■		■	
Norway	■			■			■
Papua New Guinea		■					
Philippines		■					■
Poland		■		■	■		■
Portugal	■	■		■	■		■
Romania	■	■	■			■	
Russia	■	■	■			■	■
Singapore		■	■	■	■		■
Slovakia		■		■	■		■
South Africa		■	■	■			
South Korea	■			■	■		
Spain	■		■	■	■	■	■
Sri Lanka		■					
Sweden				■		■	■
Switzerland	■		■	■	■		
Taiwan	■	■					
Thailand		■	■				■
Turkey		■		■	■	■	■
United Kingdom	■	■	■	■	■		
United States	■	■		■			
Vietnam	■						■

Argentina

Introduction

The Ministry of Science, Technology and Innovations (MINCYT) and the Ministry of Productive Development provide strong support for R&D in Argentina.

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Overview of R&D incentives

Headline rate	Argentinian companies may obtain a "tax credit certificate" of up to the lower of 10% 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	**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: – Optimization of a process – Improved product quality, quality control testing, design advice, and marketing – 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** The regime grants tax credits that may be offset against income tax payable. The tax credit certificates will be issued dividing the total amount in thirds. The first certificate will have a validity of 3 years, the second one of 2 years, and the last one of 1 year. Expenditures related to the operation of the companies are not eligible for tax credits.
Eligibility requirements	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 amount of fiscal credits that may be granted under this regime.
Other grants and incentives	**"Knowledge-Economy Promotional Regime" – Act 27,509 (together with its amended Act 27,570, the Regime)** — The aim of the Regime is the promotion of economic activities related to the use of knowledge and digitalization of the information. The following activities, among others, are under the scope of the Regime: a. Software and IT and digital services b. Audiovisual production c. Biotechnology, bioeconomics, biology, biochemistry, microbiology, among others d. Certain professional services to the extent they are export services and are mentioned in the Regime (such as legal, accounting, translation, and design services) e. Aerospace and satellite industry — The beneficiaries of the Regimen (the Beneficiaries) will have to enroll (and revalidate such enrollment every 2 years) in a National Registry. The following requirements should be met: a. At least 70% of the revenues invoiced the previous year should come from the promoted activity. b. Prove two of the following facts: » Improvements in its services quality, products, or process » Investment in personnel capacitation or research and development » Export of services and/or products. — Stability of the benefits: Beginning with the enrollment in the National Registry up until to its expiration, to the extent that the verification requirements (e.g., audits) are fulfilled. — The Beneficiaries could be eligible for an untransferable fiscal credit equal to 70% of the social security charges paid to its employees related to the execution of the promoted activity. Such fiscal credit could be used against national taxes.

Other grants and incentives

- The Beneficiaries would have a reduction regarding the total amount of income tax (from Argentinian and foreign source) due to the promoted activities (60% of reduction for micro and small enterprises, 40% of reduction for medium enterprises, and 20% of reduction for big enterprises) for FYs starting after the enrollment in the National Registry.
- Beneficiaries performing the export of promoted activities would not be subject to value-added tax collection regimes.
- Beneficiaries would be able to deduct, for income tax purposes, foreign taxes (similar to Argentine income tax) effectively paid to the extent that the income by which the tax was paid is from Argentine source.
- There would be an informative regime to be fulfilled by the Beneficiaries.
- Several punishments are established in case of noncompliance with the Regime.
- The Regime would be valid up to December 31, 2029.

Modern Biotechnology (Law 26,270)

- 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.
- The preferential regime is available to resident individuals and legal entities incorporated in Argentina that submit a research and development project based on the application of modern biotechnology and also to individuals and legal entities filing or executing application projects of modern biotechnology for the production of goods and/or services. Eligible individuals/entities shall be registered with the relevant regulators.
- Tax benefits available under this regime, which shall be in force for 15 years (as from 2007), are the following:
  - 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% of the social security contributions paid. This certificate can be used as a credit toward the payment of national taxes, for example, VAT, income tax, and income tax advances.
- Resident individuals and legal entities incorporated in Argentina that submit a research and development project based on the application of modern biotechnology will also have the benefit of a credit certificate for 50% of the research and development expenses incurred with qualified institutions (as defined by law).
- Credit certificates are nontransferable and effective for 10 years from project approval.

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 to reinvest $2 billion back into the R&D Tax Incentive.

For income years commencing on or after July 1, 2021, the R&D benefit will be increased for most companies that are able to access the R&D tax offset.

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Overview of R&D incentives

Headline rate	— Small companies (less than AUD $20 million group turnover) can access a refundable R&D tax offset at 43.5% 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 which ranges from a net benefit of 8.5% to 16.35% (depending on the company's 'R&D intensity'). — Range of federal and state government grants and concessional loans and beneficial tax rates for eligible companies.
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:** Are activities that either: a. Directly related to one or more core R&D activities; or b. 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 individual or aggregated (grouped) annual revenue under AUD20 million.

Target audience:

Small companies in all sectors.

Benefit:

— A tax offset of 43.5%. Prior to 1 July 2021, this was a fixed 43.5% rate without regard to the company's tax rate. From 1 July 2021, this is a 18.5% rate above the company's tax rate which provides the same overall 43.5% rate.

— The net benefit is the amount above the company's tax although companies with sufficient tax losses can cash out up to the full 43.5%.

— From FY22, the refundable R&D tax offset will increase to 18.5% above the corporate tax rate.

Income year	Corporate tax rate	R&D tax offset	Effective R&D tax offset rate
2020-2021	26%	Fixed at 43.5% regardless of corporate tax rate	43.5%
2021-2022	25%	18.5 percentage points above corporate tax rate.	43.5%

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 revenue above AUD20 million.

Target audience:

Larger companies in all sectors

Benefit:

— Prior to 1 July 2021, this was a fixed 38.5% rate without regard to the company's tax rate and the net benefit depended on the company's tax rate.

— From 1 July 2021, the net benefit will range from 8.5% to 16.35% depending on the company's R&D intensity. A tax offset of 38.5%.

— Indefinite carryforward of the offset if it exceeds tax payable (no cash refund), subject to tax loss carryforward rules.

— From FY22, the non-refundable R&D tax offset will be a premium based on the level of R&D intensity (R&D spend as a proportion of total expenditure for the year).

Tier	Intensity range	Intensity premium
1	0–2%	8.5 percentage points above corporate tax rate.
2	2%+	16.5 percentage points above corporate tax rate.

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 exceeds AUD 20,000. — 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 costs incurred. — If the R&D activities of the project are for the development of computer software, the resultant software must not be intended for internal business administration. — If the R&D is Australian owned, then the R&D activities must benefit the company and the company must bear the financial risk for the R&D activities at the time they are undertaken; or — If the R&D is foreign owned the related foreign company must be incorporated in a country with which Australia has a double tax agreement and the R&D activities must be undertaken under an agreement with that related foreign company.
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 a R&D Tax Schedule attached to its annual income tax return. — 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. where the company receives a government grant or sells the outputs or results from the R&D activities). These adjustments typically arise in the year the additional benefit is received or receivable.
Advance and Overseas Findings	**Advance and Overseas Findings** — Advance Findings can be requested, which will allow specific R&D activities to be certified by IISA and which, if granted, guarantee eligibility for the year in which applied for and following two years. — Overseas Findings can be requested, which will 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.
Other grants and incentives	A range of federal and state government grants and concessional loans targeting strategic sectors (e.g. advance manufacturing, innovation, regional development, etc.) and job creation are also available.
Accelerated depreciation	Whilst not specific to R&D activities, companies with group turnover below AUD $5 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% of qualifying expenses for financial years beginning after the 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.

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Overview of R&D incentives

Headline rate	A taxpayer can claim the R&D premium at a rate of 14% 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 (BGBI 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 (corporate) income tax.

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. — 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.
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. — 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 EUR 1 million per financial year (i.e., The maximum premium for contractual research is EUR 140.000 for financial beginning after the 31st of December 2017.). The calculation base must be reduced proportionately if the FY 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 intellectual property 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.

On February 2, 2017, the Parliament introduced the so-called "Deduction for Innovation Income." The new regime has a broader application than the old patent income deduction while meeting the concerns of the OECD and EU as laid down in the so-called modified nexus approach.

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Headline rate	For qualifying innovation income, a reduced corporate income tax rate of maximum 3.75% (= 15% x 25% CIT rate) applies (15% of income taxable at the nominal corporate income tax rate of 25% as from assessment year 2021). This regime replaces the patent income deduction (that was previously repealed but with a "grandfathering period" until June 30, 2021) because the patent income deduction was found not to be in line with the OECD "modified nexus approach." 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 3 years. Both research and development have to be depreciated over at least three years for tax purposes, in order to qualify for the investment deduction / R&D tax credit. An additional deduction from taxable income or a tax credit is available on top of the normal depreciation cost for R&D-related assets. For R&D investments made in assessment year 2021, the rate of the deduction is a one-off 13.5% of the investment value or 20.5% of the annual depreciation on the assets. The alternative R&D tax credit (calculated as the investment deduction multiplied by the nominal corporate income tax rate) is cash refundable if not utilized after 4 years. For example, if a taxpayer computes a tax credit in FY 2015 to AY 2016, the outstanding amount of this tax credit will be refundable in FY 2019 - AY 2020.
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.

R&D tax relief	**Patent Income Deduction — grandfathered until June 30, 2021**
	Corporate taxpayers are entitled to an 80% deduction of patent income from their taxable base. The deduction results in an effective tax rate of maximum 6.8%. (Note: Rate for AY 2020: 29.58% * 20% =5.92% as from AY 2021: 25% * 20% = 5%). Intellectual property (IP) development and overall operational expenses remain fully tax deductible, so combined with notional interest deduction and/or finance expenses, the effective tax rate will be even lower. All companies subject to corporate income tax in Belgium may also benefit from the patent income deduction. The deduction is applicable to the income derived from: — The licensing of patents (or extended patent certificates) by the company — The use of patents (or extended patent certificates) in the production process of patented products/delivering of patented services by the company itself or on its behalf. In order to avoid double deduction, the deductible qualifying patent income is subject to certain limitations from when the company acquired the patent. The following elements must be deducted from the deductible patent income: — Compensation due to other parties for these patents if it is deducted from the Belgian taxable income (This compensation does not include the contribution due by the company in the costs of R&D borne by other parties.) — Depreciation of acquired patents to the extent that they were deducted from the Belgian taxable income. The law of June 30, 2016 abolished the current regime as of July 1, 2016 since the regime was not in line with the "modified nexus approach." However, a grandfathering period for qualifying patent income to benefit from the old regime until June 30, 2021 is available provided that the patent in question has been acquired or applied for before July 1, 2016.

Regime in line with the modified nexus approach	According to the "modified nexus approach," there should be sufficient substance and an essential link between the R&D expenses, the qualifying IP rights, and the related income in order for a taxpayer to benefit from a Patent Box type of tax regime. To meet these requirements, the Belgian government has created the so-called "deduction for innovation income," which replaces the patent income deduction while improving the fiscal stimuli for R&D activities. The headlines of the deduction for innovation income include: — Qualifying IP Rights (IPR): Not only patents and extended patent certificates qualify but also copyrighted software developed by the taxpayer in a research project, 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 will include royalties and license fees, IPR income embedded in the sales price of goods and services, 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 5 years). — Deduction percentage of 85%. — 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 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/total R&D costs x total net income from intellectual property.* For the qualifying costs, the costs of outsourcing to related parties are excluded, contrary to the cost of outsourcing to unrelated parties who qualify as "qualified costs." A up-lift of 30% of the qualifying expenses for R&D outsourced to group companies is however foreseen. However, this increase (30%) can never result in a fraction exceeding 1. — Other features of the deduction for innovation income: Unused deduction can be carried forward. 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). In case the new deduction for innovation income applies, one cannot benefit from the grandfathering period for the income of that particular patent.

Increased investment deduction or tax credit for research and development	A percentage of the acquisition or investment value of certain assets that have been acquired or established during the taxable period and that relate to R&D is tax deductible. This deduction comes in addition to the normal – tax deductible – depreciation of these assets, leading to an overall tax deduction which is higher than the assets' value. **Qualifying fixed assets** 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** The increased investment deduction can be applied as a one-off deduction. In that case, the deduction equals 13.5% of the acquisition or investment value (assessment year 2021). The deduction can also be spread over the depreciation period of the fixed asset (this option is not available for patents). In that case, the investment deduction will, each year, be equal to 20.5% of the depreciation amount (for fixed assets acquired or established during assessment year 2021). **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. **Option for a refundable tax credit.** Companies have the possibility to opt for the application of a tax credit instead of the increased investment deduction. In case of insufficient tax against which the tax credit can be set off, the credit can be carried forward to the following four assessment years. At the end of these four assessment years, the balance of the unused tax credit is cash refundable.

Partial exemption from payment of withholding tax on wages paid to researchers	Companies that employ researchers benefit from a partial exemption from payment of withholding tax on their wages. They must transfer only 20% of the withholding tax due on the wage of these researchers to the tax authorities while they withhold the 100% that would normally be due. The measure has thus 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 that are engaged in R&D projects or programs and who have a doctor's or master's degree in applied sciences, exact sciences, medicine, veterinary medicine, 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 that hold a professional bachelor's or equivalent degree in the fields of biotechnology, health care, industrial sciences and technology, nautical sciences, commercial sciences and business administration (limited to informatics and innovation). The exemption for bachelors is also 80% but the total amount of the exemption for bachelor degrees is limited to 25% (50% for SME's) of the total amount of the applied exemption for employees with a master's degree. **Notification of research and development projects or programs** It is required to register R&D projects or programs with the Belgian Federal Science Policy Department before applying the exemption.
Other R&D related benefits	**Tax exemption of regional subsidies** 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 which 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 (Program Rota2030), Informatic Sector Benefit (The New IT Law), and Automotive Regime – North, Northeast, and Midwest Incentive. In some situations, they can be combined, as can be seen with automotive industries using the Law of Goodness and the Rota2030 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"

Headline rate	An additional deduction of 60% (may reach 80%) 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% of expenditures in technological innovation from the income tax calculation (income tax and social contribution on net profit)—the deduction may reach 80% of R&D expenditures, plus an additional 5% of researchers that are hired as regular employees or moved from a different internal area—if the innovative project results in IP, the additional deduction is 20% — Full depreciation of the assets acquired to be exclusively used in the 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 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 postapproval of projects to benefit from the incentives is not required.
Other grants and incentives	A 50% 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 to 26), Decree 5,796/2006 and instruction IN-RFB 1,187/2011.

"Rota2030 Program to Mobility and Logistics" – Automotive Sector

Headline rate	Tax incentive for automotive chain companies that invest in R&D in Brazil. The main benefit consists in IRPJ and CSLL (income tax and social contribution on net profit) tax credit of 10.2% up to 12.5% (with strategic R&D) of R&D expenses.
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 **Strategic R&D:** — Advanced manufacturing — Nanotechnology — New powertrain technologies — Exclusive researchers — Strategic systems — Vehicular autonomy — Big data — Connectivity — Data analytics — Tooling development, molds, and models of molds
R&D tax relief	Eligible projects qualify for: — IRPJ and CSLL (income tax and social contribution on net profit) tax credit of 10.2% — An additional IRPJ and CSLL tax credit of 2,495% of R&D expenses on projects classified as strategic R&D.
Eligibility requirements	— Companies that produce, in the country, vehicles classified in codes 87.01 to 87.06, except 87.05, of TIPI (light vehicles, trucks, buses, chassis with engine, and road tractors); — Auto parts or strategic systems, if they are elaborated and finished products, technically characterized by their functional individuality and that cannot be characterized as raw material — Companies engaged in the manufacture of products by assembling bodies on chassis to produce these vehicles — Having a technological development and production project approved for the production, in the country, of new products or new models of existing products mentioned above or new strategic solutions for mobility and logistics.

Registration/claim process	Companies that use the incentives must: — Request and be approved by the Economy Ministry — Perform expenses, in percent of net revenue, with R&D activities — Conduct periodic reports/MCTIC/ME, through accessory obligations to be published — Produce consistent documentation for any audit processes — Controlling the benefits of the program in order to impact the operational result of the business unit — Achieve minimum energy consumption levels expressed in megajoules per kilometer (MJ/Km) – light vehicles only — Include minimum items of structural performance associated with assistive technology – vehicles only.
Other grants and incentives	Nonproduced 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 13,755/2018, Decree 9,557/2018.

"Informatic and Technology Law" Brazil new regulation since 2020

Headline rate	Financial credit of 2.73 times (up to 3.41) of the amounts invested in research and development (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 information and communication technology (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 (P, D & I), in the area of information and communication technology (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 P, D & 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% and 13.65%.
Eligibility requirements	To qualify for financial credit, beneficiary companies must: — Comply with the basic productive process (PPB) for the incentive product. — Investing annually, in the country, in RD&I activities in the information and communication technologies (ICT) sector, the minimum percentage of 4% 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"

Headline rate	Presumed IPI credit for companies that invest more than R$2.5 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 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 and in research and development in an amount exceeding R$2.5 billion — Making investments in research, development, and technological innovation projects, including in the area of automotive engineering, corresponding to, at least, 10% 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 Canadian federal government has been working to refine the Scientific Research and Experimental Development tax (SR&ED) credit program, worth more than 3.0 billion Canadian dollars (CDN), benefitting over 204,000 Canadian companies. The refinements included a cut in the federal general investment tax credit (ITC) rate, for larger companies, from 20% to 15%, starting in 2014, as well as the elimination of capital assets from the list of expenditures eligible for ITCs and the redirection of savings from the refinements into other more directed government funding programs that support R&D.

Canadian-controlled private corporations (CCPCs) that meet certain maximum capital requirements are eligible for an enhanced federal 35% refundable ITC and enhanced provincial ITCs in a number of provinces. Continuing refinements to the program have resulted in income requirements no longer being applicable to limit CCPCs' access to the enhanced ITC rates.

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Overview of R&D incentives

Headline rate	A general federal investment tax credit of 15% applies to all the qualifying SR&ED expenditures for larger companies. CCPCs are eligible for a federal 35% refundable ITC, if they meet certain maximum capital requirements. Provinces also provide SR&ED ITC tax benefits, which are in addition to the federal ITCs noted above. These provincial ITCs may be either refundable or nonrefundable and range from 3.5% to 30.0% of eligible SR&ED expenditures. A few provinces do not provide SR&ED ITC tax benefits.
Definition of R&D	In general, SR&ED is defined as a systematic investigation or search carried out in a field of science or technology by means of experiment or analysis, the primary purpose of which is to advance scientific knowledge or achieve technological advancement.

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 the SR&ED; subcontracted SR&ED; payments to universities, colleges, or research consortia; and overhead. Overhead expenditures can be computed by specifically identifying incremental expenditures incurred as a result of undertaking the SR&ED (traditional method) or using a simplified method computed as 55% of the directly engaged labor (proxy method). Up to 10% of SR&ED wages and salaries of Canadian resident employees incurred while working on Canadian SR&ED projects outside of Canada are eligible for this incentive as well. 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% federal tax credit for all qualifying SR&ED expenditures. The rate increases to a 35% refundable credit for certain CCPCs on the first CAD3 million in expenditures incurred in the year, provided the company had less than CAD50 million (approximately USD37.7 million) in taxable capital in the prior year. — Provincial SR&ED incentives vary from 3.5% to 30%. 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 3 taxation years or carried forward 20 taxation years. There is no cap on the amount of expenditures and related ITCs that may be claimed in any given year. In addition, there is no restriction on the location of intellectual property resulting from the SR&ED. However, the Canadian company must be entitled to exploit the results of the SR&ED 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 3 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 a five-part test: (i) was there a scientific or technological uncertainty, (ii) did the effort involve formulating a hypothesis to reduce the uncertainty, (iii) did the overall approach include formulating and testing the hypothesis, (iv) was the overall approach undertaken for achieving a scientific or technological advancement, and (v) was a record of the hypothesis tested and results kept. Ideally, all questions would be answered "yes" for a project to be considered SR&ED.
Registration/claim process	Registration or preapproval is not required to apply for this tax incentive. To file an 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.

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 small and midsize enterprises in Canada to help them undertake technological innovation.

The basic eligibility criteria for IRAP funding are:

- Small and midsize enterprise in Canada, incorporated and profit oriented
- Fewer than 500 full-time equivalent employees
- Ability to progress and create profits through development and commercialization of innovative, technology-driven, new, or improved products, services, or processes in Canada.

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

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

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

- Enhanced tax credits for research conducted by universities, research centers, and other consortia
- Special tax credits for industries including IT, digital media, video games, film production, and visual effects.

Chile

Introduction

The Chilean Research and Development regime (**R&D**) is a tax incentive available until 31st December of 2025, which is applicable for corporate income taxpayers who determine their results under full accounting records. The tax benefit is determined over the expenses or disbursement incurred for private R&D projects, provided such projects are previously certified by the Chilean Government agency in charge of the promotion of national production and fostering of the regional economic growth (**CORFO**).

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Overview of R&D incentives

Headline rate	R&D incentive is a tax benefit that consists of a deduction for expenditures incurred under an R&D agreement as tax credit against determined corporate income tax (**CIT**) or as tax expense for the determination of the CIT taxable base.
Definition of R&D	For purposes of the Chilean R&D regulation, research and development shall be understood as following: **i. Research:** The methodical search 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 whether they have a specific application or use determined or not. Applied research consists in original work that is done to acquire new knowledge, which is driven toward to obtention of a specific practical objective. **ii. Experimental 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 aim of systematically resolving a scientific uncertainty or allows to generate a substantial and innovative improvement in some process, product, and/or service.

R&D tax relief	The tax benefit derived from the R&D regime is available until 31st December of 2025, and it's determined over disbursements borne by corporate income taxpayers in the execution of an R&D contract agreement entered with certain Research Centers. Chilean taxpayers who determine their results under full accounting records and are liable of paying CIT are allowed to deduct as tax credit against determined CIT the lower threshold of (i) 35% of disbursements incurred in the R&D project or (ii) 15.000 monthly tax units (which approximately. corresponds to USD 950,000.00). The portion of the R&D expense, net of the 35% tax credit (i.e., remaining 65%), can be deducted as an expense against income, regardless the taxpayer's main activity, in the 10 subsequent commercial years.
Eligibility requirements	This regime is available until 31st December of 2025 and is applicable for R&D agreement entered with a Research Center. To claim the R&D benefit, either the Research Center and the R&D Agreement must be registered before CORFO.
Registration/claim process	For purposes of the R&D Agreement registration process, CORFO may conduct the following actions: i. Technical review of the R&D Agreement. This action is driven to verify the realization or execution of research or development tasks. ii. Verify that R&D agreements are concluded with a registered Research Center, as well as the price agreed in such contracts reflects the costs that will be incurred to perform the R&D and that such price meets market conditions.
R&D tax relief Other relevant information	The legal representative of the Research Center must provide the Chilean Internal Revenue Service (*SII*) the following information: — The research and development contracts concluded and those in force — The individualization of the contracting parties — The total price agreed in each of the research and development contracts and the schedule and modalities of payment — Payments received under those contracts — The individualization of the contracts subscribed. The above-mentioned information must be provided by means of an affidavit, in the form and term that is established by the SII (Form No. 1841, which for FY 2021 has to be submitted until March 30th) Additionally, on a yearly basis, CORFO shall inform to the SII the issuance of resolutions, which grant or revoke the R&D tax benefits.

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

Headline rate	China-based companies that are qualified as high- and new-technology enterprises (HNTEs) are eligible for a reduced corporate income tax (CIT) rate of 15%. China-based companies under nonrestricted industry sectors including HNTE-certified companies are eligible for super tax deduction of 175% (from years 2018 to 2020). All China-based companies with eligible technology transfer income within RMB5 million are exempt from CIT. Additionally, the income exceeding RMB500 million shall be subject to CIT at 50% reduction. China-based advanced technology service enterprises (ATSEs) are eligible for a reduced CIT rate of 15%. Eligible key software enterprises will be exempted from CIT for five consecutive years and subject to a reduced CIT rate of 10% afterward. Updated CIT incentive for eligible software enterprises has not been promulgated yet. The previously qualified software enterprises can continue to receive the CIT exemption for the first and second year of profitability and a reduced CIT rate of 12.5% 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, product (services), and processes.

R&D tax relief Specific High-New-Technology (HNT) industries	**Specific high- and new-technology (HNT) industries** China-based companies that qualify as high- and new-technology enterprises (HNTEs) are eligible for a reduced CIT rate of 15% (down from 25%) for 3 consecutive years.
Eligibility requirements HNTE status	**HNTE status (specific high- and new-technology (HNT) industries)** China-based companies working in one of the following eight specified areas can be eligible for HNTE status: — Electronic information — Biology and new medicine — Aerospace — New material — High-technology service — New energy and energy saving — Resource and environment — Advanced manufacture and automation. Additionally, to qualify, intellectual property (IP) technology must be registered in the People's Republic of China and the company must meet minimum personnel, R&D expenses, revenue requirements, and enterprise innovation indicators (for R&D efforts as a proportion of company business).
R&D tax relief R&D super deduction	**R&D super deduction (nonrestricted industry sectors including HNTE-certified companies)** From 2018 to 2020: — 175% 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, 175% of the capitalized R&D expenses constitute the costs of intangible assets subject to amortization.

Eligibility requirements	Nonrestricted industry sectors including HNTE certified companies
R&D super deduction	Eligible R&D activities include: — Obtaining new knowledge of science and technology — Creatively using new scientific and technological knowledge — Substantially improving technologies, products (service), and process. Qualified R&D expenses refer to: — Staff cost — Direct cost — Fixed asset 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%). 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 RMB500 million is subject to CIT at 50% reduction.
R&D tax relief Advanced technology service enterprise (ATSE)	**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% (down from 25%). — Education fee not exceeding 8% of the total salaries of the ATSE can be deducted for CIT purposes, while the nondeducted part can be carried forward. — Revenue derived from offshore outsourcing services may be exempted from VAT.

Eligibility requirements ATSE	**ATSE (specific service industries)** China-based companies that satisfy all of the below criteria: — Working in at least one of the specified advanced technology service (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% of all employees. — Revenue derived from ATS must account for more than 50% of total revenue for the year. — Revenue derived from offshore outsourcing services must account for more than 35% of total revenue for the year.
R&D tax relief Software enterprise The new CIT incentive is yet to be updated.	**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% for the third to fifth year (down from 25%).
Eligibility requirements Software enterprise The new CIT incentive is yet to be updated.	**Software enterprise (qualified software enterprises)** China-based companies that satisfy all of the below criteria: — Employees with diploma or above must account for more than 40% of all employees while R&D personnel must account for more than 20% of all employees. — R&D expenses are not less than 6% of sales income, and R&D expenses incurred within PRC shall not be less than 60% of total R&D expenses. — Revenue derived from software product sales or operation must account for more than 50% of total revenue, while revenue derived from self- developed software must account for more than 40% 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 40% of total revenue, while revenue derived from self-developed embedded software must account for more than 30% of total sales for the year. — Companies must own IP and have suitable software development conditions.
R&D tax relief Key software enterprise	**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% thereafter.
Eligibility requirements Key software enterprise	**Key software enterprise (Qualified software enterprises)** The list of key software enterprises will be announced by National Development and Reform Commission and Ministry of Industry and Information Technology of the PRC.

Registration/claim process R&D super deduction Technology transfer	Enterprises receiving incentives shall adopt the method of "self-assessment, declaration of incentives enjoyed, 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 receive 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	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.
R&D tax relief Other relevant information	N/A
Other grants and incentives	Local governments may grant extra subsidy for accredited HNTE and/or claimed R&D expenses.

Colombia

Introduction

The Colombian system for R&D tax incentives provides for an R&D deduction or tax credit, which is credited to the taxpayer's tax liability as well as VAT exemption. Both deduction and tax credit could be claimed jointly (are not exclusive); this does not apply to the deduction granted to micro, small, and midsize since they are only entitled to claim the tax credit.

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Overview of R&D incentives

Headline rate	A deduction of 100% of the investment made in R&D or a tax credit whose percentage varies depending on the circumstances is available. Also, a VAT exemption is granted upon the imports of certain capital goods for technological institutions.

Definition of R&D	**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 on a daily basis, which translates into the improvement of the country's social and economic indicators. These projects are classified into 3 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: "A product-service innovation is the introduction of a good or service new or significantly improved with respect to its characteristics or possible uses. This type innovation includes significant improvements in technical specifications, components, materials, built-in software, ergonomics, or other functional features" (*). — Process innovation: "A process innovation is the introduction of a production method or of new or significantly improved distribution. Includes significant improvements in techniques, equipment, or software" (*). — Organizational innovation: "Organizational innovation is the introduction of a new method of organization applied to business practices, work organization, or relationships external to the company" (*). *Primer on the typology of projects classified as scientific, technological, and innovation, Version 5, Tax Benefits in Science, Technology, and Innovation Public Entity

R&D tax relief	**a. Deduction.** Investments on research, technological developments, and innovation as per the conditions established by the Tax Benefits in Science, Technology and Innovation National Committee (CNBT) are deductible for tax purposes in the taxable year in which they were done. This CNBT defines annually a total maximum amount of the deduction as well as the maximum annual amount that companies may individually request as a deduction. Donations made to some qualified entities may also be claimed as a deduction, as well as the annually paid salary to PhD personnel engaged in the company's R&D projects. The above-noted deduction excludes the application of depreciation or amortization of assets through production costs or operating expenses. **b. Tax credit**. Taxpayers who make investments in projects classified as research, technological development, and innovation by the CNBT may claim as a tax credit the 25% of the value invested in the same FY when the investment was done. The CNBT defines the procedures for the control, monitoring, and evaluation of the qualified projects, as well as the conditions to guarantee the disclosure of the results of the qualified projects. Annually, this committee establishes the maximum amount that companies may individually request as a tax credit. This tax credit may also be claimed by companies, which engage PhD personnel in R&D projects (50% of the annually paid salary). The above-noted tax credit excludes the application of depreciation or amortization of assets through production costs or operating expenses. **c. Tax credit for micro, small, and midsize companies.** Investments made by micro, small, and midsize companies in projects classified as research, technological development, and innovation, in accordance with the criteria and conditions defined by the CNBT, could be classified as a tax credit equivalent to 50% of the investment done, and could be used to offset national taxes. Under some circumstances, these companies may request the refund in "TIDIS" (refund of taxes security), which are considered local public debt and are freely negotiable. This tax credit may also be claimed by micro, small and midsize companies, which engage PhD personnel in R&D projects (50% of the annually paid salary). **Please note:** The deduction (a) and tax credit (b) may be claimed jointly (are not exclusive). Contrary, micro, small, and midsize companies are only entitled to claim the tax credit specific for them (c). **d. VAT exemption.** Imports of certain capital goods for technological institutions recognized by the Ministry of Science, Technology and Innovation (MinCiencias) and the Ministry of Education (MinEducación), intended for projects characterized as scientific research, technological innovation, and technological development are exempt from IVA.

Eligibility requirements	**For tax deductions and tax credit (a and b):** 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, or/and 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); (ii) the project must be registered at the Integrated Project Management (SIGP) of the MinCiencias, 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 PhD personnel, the company must certify to the CNBT that (i) the employee has a PhD of a Colombian or foreign entity recognized by MinCiencias, (ii) the employee is engaged in R&D projects within the company, and (iii) the employee was hired after June 2019. **For VAT exemption:** It is also mandatory to file the quotation of the equipment to import. **For the micro, small, and midsize companies tax credit**: The companies aiming to claim a tax credit (c) are subject to the same above-mentioned requirements.
Registration/claim process	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 financial report signed by an auditor, certifying the amounts invested in the project. 3. Each year on 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, and midsize companies tax credit may claim the tax benefits for the same or following FY in which the investment was made.
R&D tax relief Other relevant information	**Please Note:** The deduction (a) and tax credit (b) may be claimed jointly (are not exclusive). Contrary, micro, small, and midsize companies are only entitled to claim the tax credit specific for them (c).

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 research and development 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:

- 100% of eligible costs for fundamental research
- 50% of eligible costs for industrial research
- 25% of eligible costs for experimental development
- 50% 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% 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 €50 million per annum or gross balance sheet assets not exceeding €43 million.

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Overview of R&D incentives

Headline rate	The maximum aid threshold that a beneficiary may receive per R&D project is: a) For predominantly basic research up to EUR 300,000.00 b) For predominantly industrial research up to EUR 200,000.00 c) For predominantly experimental development up to EUR 100,000.00; and d) For feasibility studies in the preparation of research activities up to EUR 50,000.00 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% of the research costs incurred based on: — third party contracts, — knowledge and patents obtained or licensed by third parties and — 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 a 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; and c) For predominantly experimental development up to EUR15 million.
Definition of R&D	The definition of a R&D project – as well as categorization of a 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 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 to devise 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 outcome;, — systematic (planned with funding and recording of outcomes);, and — 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) 200% of the eligible R&D costs for fundamental research b) 150% of the eligible R&D costs for industrial research c) 125% of the eligible R&D costs for experimental development d) 150% 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 % 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: 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 3 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 expenditure is project expenditure that is 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 towards its employees;or — a company that has recorded previous infringements related to European Commission aid.

Registration/claim process	The application for a 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: — a corporate profit tax rate (CPT rate) decrease for a period of up to 10 years; or — cash grants; — 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: — 50%CPT rate reduction: €0.15–1 million investment made and at least 5 new jobs created — 75% CPT rate reduction: €1–3 million investment made and at least 10 new jobs created — 100% CPT rate reduction: > €3 million investment made and at least 15 new jobs created. Different conditions apply to microsized companies and IT system development projects. Minimum period for maintaining the investment and newly created jobs is 5 years for large taxpayers and 3 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.

The ability to claim the R&D allowance was incorporated into the Czech Income Taxes Act (ITA) in 2004 (effective from January 1, 2005).

Detailed information on the conditions based on which the R&D allowance can be claimed was published by the Ministry of Finance in the Decree D–288 (published on October 3, 2005).

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Overview of R&D incentives

Headline rate	A taxpayer may deduct up to 100% of the costs associated with the projects of R&D as a special tax allowance. Furthermore, a taxpayer may increase the deduction by 10% 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 the 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% 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. The R&D tax allowance can be claimed for tax periods commencing on January 1, 2005 or later. If the R&D allowance cannot be utilized in the year it is claimed, it may be carried forward and utilized within the next 3 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 a research and development 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 research and development project. The R&D tax allowance is claimed in the corporate income tax 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 D — 288. 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 — 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 research and development (R&D) activities has been introduced with effect from the income year 2018. For the income years 2018 and 2019, the increased deduction is 101.5%, and, in 2020, 103% increasing to 110% in 2026.

To ensure and increase the R&D activity Denmark has for the income years 2020 and 2021 temporary increased the deduction to 130%. Herein is set an upper threshold of possible deductible costs of DKK 845m (2020) and DKK 910m (2021). In case an entity has costs exceeding the upper thresholds, these costs can be deducted with 103% (2020) and 105% (2021).

If the company is loss making, it is possible to opt for a reimbursement of the tax value (22%) of the cost of R&D activities as a tax credit not exceeding the tax value of the tax loss and not exceeding an amount DKK5.5 million.

The temporary increase does not influence the tax credit, as this will still be DKK 5,5m in tax value.

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 still possible to get 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 appointed 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.

We are currently experiencing that the Danish Tax Authorities are questioning what costs can be included in the scheme. In our opinion, the Danish Tax Agency has a very narrow interpretation of which costs qualify for additional deduction especially when R&D costs related to production processes have been incurred.

As a result, we have outlined our considerations as to which costs may be classified as R&D costs covered by the Danish tax law.

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Overview of R&D incentives

Definition of R&D	Neither the wording of the Act nor the preparatory work includes a clear definition of the costs covered by the R&D concept. However, the preparatory work has an overall description stating that costs for basic research, applied research, and development work are covered by the additional deduction; a few examples also show which costs are typically covered and which fall outside the definition. In general, both direct costs and indirect production costs (overhead) are covered. Further, both in-house research costs as well as contract research costs are covered. The terms are defined as follows: — 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: Applied research is original investigation undertaken in order to acquire new knowledge. It is, however, directed primarily towards a specfic, 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. The costs need to meet the following criteria to be covered by the R&D concept: — 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. — It must be costs incurred from own operations and not from a customer enquiry. Research/development based on more general trends found in the market may well be deducted.

Deductible R&D costs	Costs related to development of new products are covered insofar as the costs are incurred 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. Development of new software can also be considered R&D if new products are developed. Further, any acquisitions of plant and machinery to be used in R&D can be depreciated all at once and on the basis of 101.5% of the acquisition amount. **Cost that are not R&D (but still may be deductible business expenses)** Outside the scope of the R&D definition are costs relating to training, documentation, customer service, production planning, sales and market analysis, etc. For software development, routine development or maintenance is not considered R&D activities. 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. 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 plus the extra amount (2018/2019: 101.5% 2020: 103%). The criteria to be included in the scope are the same as mentioned above. It is our experience that 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. 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. Recently, the Danish Minister of Taxation has issued an answer where it is recognized that, after a concrete assessment, expenses for development of own processes can be deducted as R&D costs if the other criteria are met. We expect that the Danish Tax Authorities will follow this new guideline from the Minister of Taxation. The Danish Tax Authorities are refusing to grant 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.

Finland

Introduction

According to the latest statistics of the Central Statistical Office of Finland, the share of R&D expenditure amounted to 2.7% of the GDP (2018). The corporate income tax rate in Finland is currently 20%. In 2020, the municipal tax rate ranged between 16.75% and 23.50% with the average municipal tax rate being 19.97%.

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. However, there is no particular R&D tax incentive scheme in the Finnish law.

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General Overview

Definition of R&D	The Finnish law no longer provides a specific definition of R&D. During the validity of the temporary Finnish R&D tax incentive scheme in 2013–2015, R&D activities were defined as fundamental research, industrial research, and experimental development, in which systematic work is undertaken to increase knowledge or finding new applications for it in accordance with the European Commission's (EC) regulation No 800/2008.
R&D expense deductions	As a main rule, expenses incurred for business purposes, such as R&D expenses, can be deducted from taxable income. These deductions are subject to the ordinary 20% CIT rate. All costs resulted from R&D activities are deductible. (Section 25, Business Income Tax Act (BITA))
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% 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%. 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% rate. The previous rate until 31st December 2019 was 35%. 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 he or she started working in Finland. — The employee is paid at least €5,800 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

Since 2008, France has offered companies a very attractive Research Tax Credit (RTC) (Crédit d'Impôt Recherche), which is considered to be one of the most generous in the world. The Research Tax Credit is a corporate tax relief measure based on R&D expenses incurred by companies subject to corporate income tax in France. This incentive helps to support companies' R&D efforts and increase their competitiveness.

Since January 1, 2013, there is a new R&D tax incentive for operations relating to prototype designs of new products or pilot installations of new products incurred by SMEs within the meaning of the EU definition (innovation tax credit).

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Overview of R&D incentives

Headline rate	The RTC, which is computed on a calendar-year basis, is equal to 30% of the portion of R&D expenses below EUR100 million and is reduced to 5% for the portion exceeding EUR100 million.
Definition of R&D	The RTC covers "scientific and technical" research 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.

Definition of R&D	Research operations are RTC eligible if they meet the following five essential criteria: — Aim at new findings (novelty) — 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, but also extends to other industries such as banking and insurance; notably with respect to their development of innovative IT programs.
R&D tax relief	The RTC, which is computed on a calendar-year basis, is equal to 30% of the portion of R&D expenses below EUR100 million and is reduced to 5% for the portion exceeding EUR100 million. Since 2008, the RTC is no longer capped. Therefore, for multinationals with significant R&D expenditures, locating their R&D centers in France may present a real opportunity. In principle, the RTC is offset against any corporate income tax for the year in question and, if need be, for the following 3 years. After this 3-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 (e.g., to a bank, a credit institution, etc.) as soon as it is booked. The RTC is immediately refundable to "newly created" companies (for the year of creation and the 4 following years), Young Innovative Companies (*Jeunes Enterprises Innovantes*), SMEs (as defined by EU law), and distressed companies.
Eligibility requirements	Eligible expenses, which must be determined on a calendar-year basis, essentially consist of those relating to the human and physical resources allocated to R&D, outsourced R&D, technological watch, and patenting and patent protection. Expenses may, in principle, relate to R&D operations located in the EU or in the EEA (excluding Liechtenstein). Hence, companies may benefit from the RTC on expenses incurred in the EU 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 reinvoiced abroad, so long as they were initially incurred by the 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's nexus approach (BEPS program, Action number 5). Since January 1, 2014, patent/plant variety certificate registration costs are not subjected to this territorial restriction. To claim the RTC, companies are not required to hold the IP rights resulting from their R&D activities.

Registration/claim process	The RTC form must be filed 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 has been postponed to 15 May. If this deadline is not met, the company is allowed to claim the RTC until 31 December of the 2nd year following the missed deadline.
R&D tax relief – other relevant information	The RTC can be audited until the end of the 3rd year following that of the filing of the RTC form. Any company may seek an advance approval from the tax authorities regarding the eligibility of an R&D project prior to engaging in the corresponding R&D operations. This advanced approval procedure is an option offered to companies, but is by no means a prerequisite to benefit from the RTC. Since January 1, 2013, a ruling request could be filed within 6 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.
Other grants and incentives	Under the 2013 Finance Act, there is a new innovative tax credit mechanism for certain innovation expenditure incurred by SMEs, such as prototype design and pilot plants for new products (a specific rate of 20% and a ceiling of EUR 400,000 of qualifying expenditure applies). Income arising from the sale or licensing of intangible property rights, such as patents, patentable inventions, and know-how, may (under certain conditions) benefit from a reduced 10% corporate income tax rate (instead of a 15% tax rate until December 31, 2018). A significant change relates to copyrighted software, which is now eligible to the new regime.

Germany

Introduction

For the first time, as of 2020, Germany has introduced a tax incentive for research and development (R&D) by way of a so-called "research allowance". The allowance is equally available to all enterprises irrespective of their size, their respective profit situation, and the purpose of the enterprise. The allowance is linked to personnel expenditure for R&D activities and amounts to 25% of the expenditure, maximally € 1,000,000.00.

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 allowance. As the allowance is technically settled in the assessment procedure (tax credit or refund), only nonresident taxpayers whose German income is determined in an assessment procedure (i.e. whose income is not settled by withholding taxes), can benefit. The allowance is equally available to all enterprises irrespective of their size, their respective profit situation, their purpose, and their legal form. Partnerships are eligible themselves. For state aid reasons, undertakings in difficulty, within the meaning of the European Commission Regulation "General block exemption Regulation" (GBER), are excluded from benefiting from the R&D tax incentive.
Tax privileged R&D projects	The funding is limited to certain R&D areas, namely basic research, industrial research, as well as experimental development. The definition and assessment of the eligible R&D areas follow the criteria set out in the GBER. Cross-enterprise research cooperations are also incentivized. Cooperation 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 possible. Contract research, too, is tax privileged insofar as the contractor is resident in an EU state or EEA state. It is the contracting entity that is eligible rather than the contractor carrying out research on behalf of a third party.

Registration/claim process	Whether or not R&D projects or activities should be incentivized is to be certified by an authority outside the tax administration, referred to as the Bescheinigungsstelle Forchungszulage, or BSFZ. In this context, it is to be verified whether or not the R&D projects carried out are in fact basic research, industrial research, or experimental development or whether the activities go beyond that and serve the purpose of, for example launching a product. The first certificate for a financial year will be free of charge for the applicant. Any other certificate with respect to R&D projects of the same financial year may be subject to a fee. The company filing the application, however, may request the certificate uniformly for all R&D projects so that a fee can be avoided. On the basis of this certificate, 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 corporate income tax. 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 allowance (so-called research allowance) calculated on the basis of the personnel expenditure for R&D projects. Hence, there is no link to the determination of taxable income or the income tax or corporate tax to be assessed. The allowance will be granted irrespective of the profit situation of an enterprise. Eligible expenditures are the wages and salaries of the eligible enterprise's own employees to the extent that they are subject to German wage tax. The eligible expenditure will result from the wages 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, 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, which benefits from the tax incentive. In the case of contract research, the eligible expenditure amounts to 60% of the remuneration paid by the contracting entity to the contractor. The assessment basis for the research allowance resulting therefrom is capped at EUR 4 million. 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. The research allowance amounts to 25% of the assessment basis. Considering the cap of the assessment basis, the maximum allowance will be € 1,000,000 per enterprise and financial year. Moreover, for state aid reasons, a cap of € 15 million for R&D projects will be applicable to any granted state aid (including research allowance) per undertaking.

Period of application	The R&D allowance 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 the new law has entered into force (January 1, 2020). The Act entered into force on January 1, 2020 and will be applied initially for only six months. 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 their 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% to 75% 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), which entered into force as of January 1, 2014, introducing increased deductibility of R&D expenditures (article 22A).

Moreover, article 71A was introduced in the ITC in 2018, providing tax incentives to companies implementing internationally recognized patents in their products/services.

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R&D activities (article 22A)

Headline rate	According to domestic legislation, an enterprise may deduct up to 130% of the costs associated with R&D projects (scientific and technological research expenditure) 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 10335/6.28.2019) 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 3 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: a. The designing, production of prototypes, and respective tests. b. 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. c. Industrial design that it is required for the implementation of scientific and/or technological research. d. Industrial engineering, on condition that its successful completion depends on further research.

Definition of R&D	e. 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. f. 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 mainly include the following: a. **Buildings/Premises:** Depreciation of expenses for the purchase, construction or repair, maintenance and renovation of buildings. b. **Equipment:** Depreciation of expenses for the purchase or financial leasing of laboratory equipment and technologies. c. **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). d. **Operational expenses:** Such as rents or operational leases, electricity, telecommunication, water utilities, etc. e. **Salaries** of relevant employees and fees to freelancers involved in the scientific and technological research project. f. **Travel expenses:** Directly connected to an R&D project that is being executed. g. **Consumables** h. **Patents:** Purchase or holding of patents from/in Greece or abroad. i. **Connectivity expenses:** For connecting with electronic libraries, data networks, etc. j. **Subcontractors:** Expenses for services provided by third parties (e.g., labs, public research centers/organizations and universities, etc.) cannot exceed 70% 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., increased deductibility of R&D costs by 30%) 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. Assessment of the submitted application, documentation and certification of R&D expenditure is performed by a special Certification Committee appointed by the GSRT. Following completion of the assessment procedure and issuance of relevant report by the Certification Committee, 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.

Patents (article 71A)

Headline rate	According to domestic legislation, profits of an enterprise realized by the sale of its products, for production of which an internationally recognized patent was developed and used by this enterprise, are exempted from corporate income tax for 3 consecutive years, starting from the year during which revenues were first realized from the sale of said products. The exemption is also granted when the products are produced in third-party facilities. This exemption also covers profits gained from services, when these services relate to exploitation of an internationally recognized 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 52738/5.16.2018.
Tax exemption	For the beneficial treatment to apply, the qualifying patent should contribute to at least 30% of the cost of the manufacturing materials required for production of the product. The exempted profits are recorded in a special reserve account and will be subject to corporate income taxation 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 Ordinance (No. 7) 2018 sets out the legislative detail relating to the R&D enhanced tax deduction regime. It will apply to expenditures from April 1, 2018.

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Overview of R&D incentives

Headline rate	A 300% super deduction (for the first HK$2 million) and 200% super deduction (for amounts exceeding HK$2 million) is available for qualifying expenditure. Where activities do not fall under qualifying expenditure, they may still be eligible for the 100% immediate deduction.
Definition of R&D	The term "research & development" means: — Any activities in the field of natural or applied science 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 that 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	**Super deduction (persons carrying on a trade, profession, or business in Hong Kong)** Qualified entities are eligible for a 300% super deduction (for the first HK$2 million) and 200% super deduction (for amounts exceeding HK$2 million) for qualifying expenditure. Where activities do not fall into the below criteria, they may still be eligible for the 100% immediate deduction.
Eligibility requirements Super deduction	**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 return issued on or after April 1, 2019). — Taxpayer could apply for an advance ruling in respect of the R&D tax relief.
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. **Antiavoidance 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.

Other grants and incentives	**R&D Cash Rebate Scheme** A rebate of 40% 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. **Incubation Programs** Hong Kong Science and Technology Park 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% of the total eligible costs of the project capped at HK$5 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

Headline rate	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 towards 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 5 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 it 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 maybe – 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 HUF 100 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 from. The maximum tax allowance that can be enforced in a given tax year is 80 per cent 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% of the direct cost of the R&D activity incurred in a given tax year; — Social tax allowances for the employment of researcher 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. — 50% of the net royalty income from qualifying IP can be exempted for CIT purposes. Such an exemption is capped at 50% of the pre-tax profit. — Moreover, 100% 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 1 year has elapsed. In case of such "Reported IP", 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 5 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% of the expenses incurred in relation to an approved research and development project up to a defined threshold.

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Overview of R&D incentives

Definition of R&D	Research and development 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. The Icelandic Centre for Research (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: 1. The concept of value-added product/service and business plan is well defined 2. It can be demonstrated that at least ISK1 million will be spent on research and development over a 12-month period 3. 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 The Icelandic Centre for Research (Rannís) no later than the 1 October 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 1 April 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 corporate income tax 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% of the cost incurred in relation to an approved research and development 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 ISK 600 million resulting in maximum tax credit amounting to **ISK120 million**. When the research and development projects require contracted services from third parties then the maximum annual expenses increases to ISK 900 million, resulting in maximum R&D Tax Credit amounting to **ISK180 million**. 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 governmental 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, 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% of the total amount of eligible expenses for a research project or 80% in the case of a collaborative project. A total grant for a development project can reach a maximum of 45% of the total eligible expenses or 60% in the case of a collaborative project. **Midsize entity:** The combined grant may reach a maximum of 60% of the total amount of eligible expenses for a research project or 75% in the case of a collaborative project. A total grant for a development project can reach a maximum of 35% of the total amount of eligible expenses or 50% in the case of a collaborative project. **Large entity:** The combined grant may reach a maximum of 50% of the total eligible expenses of a research project or 65% in the case of a collaborative project, in the case of cross-border cooperation projects in the European Economic Area, or with at least one small or midsize business. A total amount of funding for a development project can be a maximum of 25% of the total eligible expenses or 40% in the case of a collaborative project, in the case of cross-border cooperation projects in the European Economic Area, or with at least one small or midsize 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** and income years 2020 and 2021, amounting to **35%** of the eligible cost incurred in relation to an approved research and development project in the case of **small and midsize enterprises** and for large companies, **25%** of the eligible operating expenses within the meaning of the Point 1 of paragraph 1 of Art. 31 of the Income Tax Act no. 90/2003. Maximum annual expenses eligible for the Tax Credit in **2021 and 2022 amounts to ISK1,100 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 nonrepayable grants available to support innovation companies with their R&D projects through the Technological Development Fund, which is also handled by The Icelandic Centre for Research (Rannís). The main grants are Fræ (up to ISK1.5 million), Vöxtur (up to ISK50 million), Sprettur (up to ISK70 million), Sproti (up to ISK20 million), 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.

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

Headline rate	— **In-house R&D** – A tax deduction of 100% 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% of the expenditure incurred on in-house R&D facility — **Contribution to Indian company for R&D** – A tax deduction of 100% of the sum paid by person/entities who outsource R&D to an eligible Indian company — **Contribution to notified institutions for R&D** – A tax deduction of 100% 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 setup in Special Economic Zones (SEZ)** – Income tax benefits on R&D activities carried out in SEZ ranging between 100% and 50% 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% 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 science 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 3 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%[1] or 15%[1].

[1]Under 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 3 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 3 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, tobacco, etc.)

R&D tax relief	— A tax deduction of 100%[2] 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%[1] or 15%[1].
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)

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

R&D tax relief	— A tax deduction of 100%[3] of the amount paid to the eligible Indian company — No tax deduction is allowed for companies opting for concessional tax rate of 22%[1] or 15%[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 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 3 months from April 1, 2021 to the prescribed income tax authority and the approval so 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.
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%[4] 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%[5] of the sum paid (in case of criteria (iii) mentioned below) — No tax deduction allowed for companies opting for concessional tax rate of 22%[6] or 15%[7].
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.

3 For the financial year commencing before April 1, 2017, tax deduction of 125% of the sum paid is allowed.
4 For the financial year commencing before April 1, 2020, weighted tax deduction at a higher percent is allowed.
5 For the financial year commencing before April 1, 2017, tax deduction of 125% of the sum paid is allowed.

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 3 months from April 1, 2021 to the prescribed income tax authority and the approval so 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 make an application in the prescribed form before the prescribed authority (i.e., head of the national laboratory, university, or IIT and principal scientific advise 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 setup in SEZ	
R&D tax relief	— Income tax benefit as under: – First 5 years of operations – 100% tax benefit on eligible profits – Next 5 years of operations – 50% tax benefit on eligible profits – Next 5 years of operations – 50% 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%[1] or 15%[1].
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, furnishing of report under a prescribed form, etc.
Patent box regime	
R&D tax relief	— Reduced tax rate of 10% 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% 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 of 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.
R&D tax relief Other relevant information	NIL

Other grants and incentives	Other funding benefits for R&D activities

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

Other grants and incentives under indirect tax law

Goods and Services Tax (GST)

— Concessional GST rate at 5% 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 or Department or Council, etc.

  – The share of such Ministry/Department/Council shall not be less than 20% of total cost of the project.

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

— Concessional BCD rate of 5% 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, etc. (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. 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

Headline rate	The R&D tax credit rate for large companies is 25% of qualifying R&D expenditure and is available in addition to the normal trading corporation tax deduction for R&D, resulting in a tax benefit of 37.5% (i.e., 12.5% corporation tax deduction plus 25% R&D tax credit). The R&D tax credit rate for small and microcompanies is 30% of qualifying R&D expenditure and is available in addition to the normal trading corporation tax deduction for R&D, resulting in a tax benefit of 42.5% (i.e., 12.5% corporation tax deduction plus 30% R&D tax credit). Note: This is subject to State Aid approval which has yet to be obtained. — A small or micro company is defined as such if it (i) employs fewer than 50 persons and (ii) has an annual turnover and/or annual balance sheet total does not exceed EUR10 million.
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).

R&D tax credit	The R&D tax credit rate is 25% of qualifying expenditure and is available in addition to the corporation tax trading deduction available for R&D spend; this results in a potential tax benefit of 37.5%. Eligible expenditure can include revenue expenses (e.g., salaries, utilities, materials, etc.) that are deductible for the purposes of computing corporation tax and capital expenditure such as plant, machinery, and buildings. Where a company does not have sufficient corporation tax liability in the current accounting period, it can choose to carry the credit back for offset against the corporation tax liability in the preceding period. Any remaining excess can be carried forward indefinitely against future corporation tax liabilities. Alternatively, a company can choose to effectively group relieve the credit between qualifying companies that are members of a group. Instead of carrying the credit forward, a company may elect to have any remaining excess credit paid as a cash refund by revenue over 3 years. The amount of money that a company can claim under the cash back mechanism is limited to the greater of: — The corporation tax paid by the company during the period of 10 years prior to the previous accounting period — For large companies: The sum of the payroll tax liabilities for the current period (in which the expenditure on R&D was incurred) and the period prior, subject to conditions — For small and micro company: The limit applying to the cash refundable credit that can be received is the aggregate of twice the payroll tax liabilities for the relevant accounting period. Note: This is subject to State Aid approval which has yet to be obtained.
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 Taxes Consolidation Act 1997: — The company must be within the charge to Irish corporation tax. — Large companies must be carrying on a trade (pretrading R&D expenditure may be claimed once trading commences); however, small and microcompanies that are conducting pretrading R&D may claim the R&D tax credit before trading commences. Note: This is subject to State Aid approval which has yet to be obtained. — 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, as defined by the legislation — R&D expenditure incurred is tax deductible expenditure in respect of 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.
R&D tax relief – other relevant information	For periods commencing prior to January 1, 2015, the credit is claimed on incremental qualifying expenditure over the amount incurred on R&D activities in the base year (i.e., an accounting period ending in 2003). For periods commencing on or after January 1, 2015, the credit is claimed on all qualifying expenditure (i.e., on a volume basis). As part of a phasing out of the base year, a partial volume-based regime was in place for periods commencing on or after January 1, 2012, 2013, and 2014, whereby companies could avail of a 25% R&D tax credit for every euro incurred on qualifying R&D for the first EUR 100,000, EUR 200,000, and EUR 300,000 of expenditure, respectively; the base year rule is applied for any expenditure above these limits. 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 build or refurbish buildings or structures for both R&D and other activities may claim an R&D tax credit in respect of 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% of the building is used for conducting R&D activities for the first 4 years from when the building is first brought into use for the purpose of the company's trade. A 10-year clawback 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% of the company's non-outsourced R&D spend or EUR 100,000 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). Key employees who have been actively involved in R&D activities can benefit from an employee reward mechanism, effectively allowing them to receive part of their remuneration tax free. This is subject to a large number of restrictions.

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. Where an SIA is held for more than 10 years, there will be no clawback of the tax relief granted on its disposal, unless it is sold to a connected company that wishes to claim allowances. — 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. It is also available in respect of acquisitions from Irish related parties, although further conditions may apply in these cases. — 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% of the related annual income before capital allowances and interest.

Knowledge Development Box	The Knowledge Development Box (KDB), introduced in Budget 2016, is aimed at incentivizing companies to undertake innovative activities in Ireland by providing an effective 6.25% corporate tax rate for qualifying profits generated from commercializing certain intellectual property (IP). The KDB applies to accounting periods commencing on or after January 1, 2016, and the relief must be claimed within a 2-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 not 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	These include: — State-funded innovation and training grants (e.g., Enterprise Ireland for indigenous firms and IDA for international firms) — R&D fund (available from Enterprise Ireland) — EU-funded grants (i.e., Horizon Europe). — Innovation voucher initiative (available from Enterprise Ireland and Invest Northern Ireland) — Disruptive Technologies Innovation Fund available from the Department of Business, Enterprise and Innovation.

Israel

Introduction

Israel sees technological innovation as a valuable resource to its economic growth and prosperity. Israel's objectives are preserving and strengthening technological leadership and entrepreneurial culture, contributing to the production and export, creating quality employment, all while locating 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 in order 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 with the purpose of discovering 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 corporate income tax rate (**hereinafter, CIT**) of 7.5%, while entities located in other areas are eligible for a 12% CIT (instead of a rate of 23%). Generally, the tax rate when distributing dividends will be 20%, or 4% when certain conditions are met. Capital Gains Tax rate may be reduced to a rate of 12% under specific circumstances. Accelerated depreciation for machinery and equipment is 200% and 400% for buildings. **Special Preferred Technological Enterprise** Similar benefits to those of a Special Preferred Technological Enterprise, except for the CIT, which will be reduced to 6%, regardless of the entity's location **R&D expenses deduction** According to the provisions of Section 20A of the Israeli Tax Ordinance (**hereinafter, the ITO**), R&D expenses may be deducted for tax purposes over a period of 3 years. Companies may deduct up to 100% of their R&D expenses in the year they were paid, contingent on the Israeli Innovation Authority's (**hereinafter, the IIA**) confirmation that the expenses are indeed R&D expenses. **Company executing R&D for an international company** Entities located in National Priority Regions are eligible for a reduced corporate income tax rate of 7.5%, while entities established in other areas are eligible for a 16% CIT. The tax rate when distributing dividends will be 20%. Accelerated depreciation for machinery and equipment is 200% and 400% for buildings. **The Angel's Law** Section 20(a) of the Economic Policy Law 2011 and 2012 (**hereinafter, the Angel's Law**) enables individual investors who invest in Israeli companies in their initial R&D stage (seed) to recognize 100% of their investments in the entity as expenditures for tax purposes. The goal of Angel's Law is to increase the available financing sources for early stage Israeli R&D companies.

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% 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, and industrial R&D in the field of renewable energy). — The company's R&D expenses in the 3 years preceding the tax year: – Amounts to an average of 7% per annum of the company's total revenues; or – Were above NIS75 million per year. The company meets one of the following conditions: — 20% or more of the company's employees are R&D employees, or alternatively, 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 3 years, the company's revenues had grown at an average rate of 25% each year (provided there were revenues of at least NIS10 million in the first year). — Over the past 3 years, the company's employment rate had grown at an average rate of 25% 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. **R&D Expenses Deduction** "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. In order to receive this tax benefit, the applying company should obtain an 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.

Eligibility requirements (Continued)	**Company Executing R&D for an International Company** In order to enjoy this tax benefit, a company has to meet certain criteria including minimal export of at least 25% of its revenues. In addition, the company needs to obtain an 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 Angel's Law** Eligible companies are companies that fulfill certain criteria, for example, Israeli companies with R&D expenses that amount to at least 70% of the total company expenditures for the relevant tax year. Companies must receive an approval from the IIA with regard to their R&D expenditures in order to obtain this tax benefit.
Funding programs	**The R&D Grants Programs** The R&D Grants Programs are the main instrument of the R&D Law. In general, these programs provide financial grants of 20%-50% of approved R&D programs. In geographical areas designated as National Priority Areas, mostly regions in Israel's periphery, the benefit can reach 60%. A research committee made up of professional examiners headed by the IIA is assigned with awarding the grants according to a predetermined set of terms and conditions. Israeli companies from all industry sectors that wish to develop, or upgrade, products or manufacturing processes may apply. A company supported by this program is obligated to pay royalties when the government-assisted R&D project results in a commercially successful product. The various IIA's R&D Grants Programs have varying requirements, such as the amount of money the company raised, company's turnover, company's main business, number of employees, R&D budget, maturity level, etc. These programs are diverse and suitable for, among others, new entrepreneurs, early-stage start-ups (seed), growth-stage companies, mature companies, and R&D centers. Obtaining the grants is based primarily on the level of technological innovation and its business feasibility. In addition to the existing programs the IIA publishes, from time to time, special programs offer R&D grants in specific fields such as agritech, food tech, creating AI training, digitalization of government agencies, etc. **Employment grants programs** There are several employment grants 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 in Jerusalem. These programs assist investors looking to establish, expand, or copy ventures to these high-paying areas. The rate of grants are, for each employee, an average of 25% of the wage cost for a four-year period and no more than the NIS 30,000 wage cost ceiling. Additionally, there are employment grant programs aimed to incentivize the employment of students and integrate minorities in 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 2020 program.

Claim process	**Preferred Technological Enterprise and Special Preferred Technological Enterprise** A preapproval or tax ruling is not mandatory in order to claim 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). This may be examined in a later stage by the ITA. In order to achieve a level of certainty, an entity may submit a request to the ITA for the purpose of receiving a tax ruling, whereby the company is entitled to the benefits under the Encouragement Law.
Other benefits and grants	An applying company should submit a request to the IIA consistent of a business plan, R&D plan, and 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 evaluated according to the level of technological and functional innovation, the economic aspect of the plans' products, and the company's abilities. Also, examiners will check the company's expenses and their compliance with the IIA' regulations.

Italy

Introduction

Over the years, sporadic and short-term general R&D tax incentives have been introduced in Italy. 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.

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Overview of R&D incentives – FY 2021

Headline rate	— An R&D tax credit ranging from 10% to 20% of qualifying R&D expenses is available. — An IP-box regime "Patent Box" is available. It excludes part of the income attributable to the use of qualifying intangible assets from the Corporate Income Tax (IRES) and the Regional Business Tax (IRAP) base. — A tax credit ranging from 6% to 50% of qualifying expenses incurred for buying eligible new "Industry 4.0" and other capital goods is available. — A tax credit ranging from 30% to 50% of qualifying expenses incurred for "Industry 4.0" employee training costs is available. — Qualified researchers willing to establish their tax residence in Italy shall benefit from a 90% exemption from Individual Income Tax (IRPEF) and from a full exemption from IRAP.

R&D tax credit	The 2021 Budget Law has extended to 31 December 2022 and enhanced the tax credit introduced by the 2020 Budget Law for investments in R&D, technological innovation and other innovations. Taxpayers incur eligible expenses by: a. Engaging in fundamental research, industrial research, or experimental development in the areas of science or technology, b. Investing in technological innovation in areas—other than science and technology—that could contribute to the development of new or substantially enhanced products or production processes, c. 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 20% of the cost base, net of any subsidies or contributions received for the same eligible expenses. The maximum tax credit is EUR4 million, — For Category B activities, the tax credit amounts to 10% or 15% of the cost base, net of any subsidies or contributions received for the same eligible expenses. The maximum tax credit is EUR2 million, — For Category C activities, the tax credit amounts to 10% of the cost base, net of any subsidies or contributions received for the same eligible expenses. The maximum tax credit is EUR2 million. The R&D tax credit can only be used in 3 equal annual installments. Any taxpayer wishing to claim the R&D 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 financial year in relation to the projects/subprojects underway.
Optional Patent Box	Since the financial year December 31, 2014, entrepreneurs resident in Italy, or Italian permanent establishments of entities resident in countries that have signed a Double Tax Treaty and exchange information with Italy, have been able to opt for the Patent Box regime if they carry out R&D activities. Under the regime, a certain percentage of qualifying income is excluded from the tax base. Qualifying income is that deriving from the licensing or direct use of eligible intellectual property (currently, software protected by copyright; patents; designs; models; processes; secret formulas; and industrial, commercial, or scientific knowledge, including know-how). The percentage of qualifying income that is not included in the IRES or IRAP base was 30% for 2015, 40% for 2016, and is 50% as of 2017 (for calendar year taxpayers). Taxpayers can determine the amount of qualifying income in two different ways: a. By obtaining a tax ruling; b. By using a self-assessment mechanism. The eligible portion of qualifying income is given by the ratio of the R&D costs incurred in maintaining and developing the intangible asset to the total costs of producing that asset. This computation method is compliant with the OECD "nexus approach".

Tax credit on investments in "Industry 4.0" capital goods	The 2021 Budget Law has renewed the tax credit for investments in new capital goods but has made significant changes on several fronts, compared with the rules introduced the previous year. Instead of being renewed annually, as in the past, the relief is now available for investments in new capital goods made from 16 November 2020 to 31 December 2022 or – if the order has been accepted by the seller by 31 December 2022 and a down payment of at least 20% has been made – 30 June 2023. In addition, the percentage of the costs that can be taken as a tax credit, the type of capital goods covered by the rule and the amount of eligible expenses change. However, as this guide is being updated, there are rumors that the incentive will soon undergo further changes, in terms of the size of the credit, the types of goods eligible for aid, and the time frame. 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 ordinary tangible assets and (a new detail compared to last year) ordinary intangible assets -> the tax credit amounts to 10% (increased to 15% for investments in technological tools and devices dedicated to encouraging smart working methods) in the first window and 6% in the second. — For 4.0 tangible assets indicated in Attachment A to Law no. 232/2016 -> the tax credit amounts to 50%/30%/10% (depending on the expenditure bracket) in the first window and 40%/20%/10% (depending on the expenditure bracket) in the second. — For 4.0 intangible assets indicated in Attachment B to Law no. 232/2016 -> the tax credit amounts to 20% of the cost at any time between 16 November 2020 and 31 December 2022. The tax credit can be used in three equal annual installments, starting from the year in which the asset becomes 'interconnected' or goes into use. In line with the previous version of the benefit, a recapture mechanism applies in the event that the assets are sold or transferred to production facilities located abroad by 31 December of the second year following that in which they become operative or interconnected. The law establishes certain formal requirements.

Tax credit on "Industry 4.0" employee training costs	The tax credit for "Industry 4.0" employee training costs has been extended up until the financial year in progress on December 31, 2022. This tax credit is available to: a. Small businesses, that can claim a tax credit equal to 50% of the eligible expenses and capped at EUR 300,000 per annum. b. Midsize businesses, that can claim a tax credit equal to 40% of the eligible expenses and capped at EUR 250,000 per annum. c. Large businesses, that can claim a tax credit equal to 30% of the eligible expenses and capped at EUR 250,000 per annum. For all businesses, the tax credit rises to 60% if the workers who receive the eligible training are classed as underprivileged or very underprivileged employees (the annual caps remain the same). The 2021 Budget Law has also expanded the range of eligible costs in accordance with article 31 (3) of Regulation (EU) No. 651/2014. From now on, the following costs will be considered in the calculation of the tax relief: — trainers' personnel costs, for the hours during which the trainers participate in the training; — trainers' and trainees' operating costs directly relating to the training project; — costs of advisory services linked to the training project; — trainees' personnel costs and general indirect costs (e.g. administrative costs, rent) for the hours during which the trainees participate in the training. The tax credit can be used from the financial year subsequent to that in which the eligible expenses are incurred.
Tax incentives for nonresident researchers (Law Decree no. 78/2010, converted into Law no. 122/2010 as amended by Law Decree no. 34/2019)	Qualified researchers willing to establish their tax residence in Italy shall benefit from a 90% 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).

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, 2021.

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

Headline rate	**1. Tax credit for total R&D expenditure (volume-based credit)** — Large company A credit of 6%–14% of the total amount of R&D expenditure for a FY is allowed against the corporate income tax liability of the FY for a company filing a blue-form tax return. The credit cap for FYs beginning between April 1, 2019 and March 31, 2021 is set at 25% of tax payable. — Small and midsize company A credit of 12%–17% percent of the total amount of R&D expenditure for a FY is allowed against the corporate income tax liability of the FY for small and midsize company filing a blue-form tax return. The credit cap for FYs beginning between April 1, 2019 and March 31, 2021 is 25%–35% of tax payable. **2. Tax credit for specified R&D expenditure (incremental credit)** A credit of 20% or 25% or 30% of the certain specific R&D expenditure for a FY is allowed against the corporate income tax liability of the FY for a company filing a blue-form tax return. The credit cap for FYs beginning between April 1, 2019 and 31 March 2021 is set at 10% of tax payable.

Definition of R&D	Expenditures mentioned below, that 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 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 — Expenditure for operations described below with the purpose of R&D of new services (all operations 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 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 a 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 6%–14% of the total amount of R&D expenditure for a FY is allowed against the corporate income tax liability of the FY. The credit cap for FYs beginning between April 1, 2017 and March 31, 2021 is set at 25% 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, 2021 where neither condition (i) nor (ii) is met. i. [Salary payments for continuously employed people in the current FY] > [Salary payments for continuously employed people in the preceding FY] ii. [Total acquisition cost of depreciable assets located in Japan in the current FY] > [Total depreciation costs of depreciable assets recorded in the current FY] x 10% 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 JPY 100 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% of the total amount of R&D expenditure for a FY is allowed against the corporate income tax liability of the FY for small and midsize company filing a blue-form tax return. The credit cap for FYs beginning between April 1, 2019 and March 31, 2021 is 25%–35% 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 4 years (including the current year) is over 10%, applied to FYs beginning between 1 April 2019 and March 31, 2021.

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, 2021] 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%, 25% or 30% R&D tax credit.

For the purposes of this rule, the scope of specified R&D costs and creditable ratio are as follows below:

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	
	R&D venture companies	25%
	Private enterprises	20%
	R&D partnerships	
Consignment R&D	National R&D institutions	30%
	Universities	
	R&D venture companies	**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**		

No Underlined items have been newly added for FYs beginning between April 1, 2019 and March 31, 2021.

In addition, the maximum tax creditable amount for specified R&D expenditure has been increased from 5% to 10% of the corporation tax liability for the FY, applied to FYs beginning between April 1, 2019 and March 31, 2021.

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% 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 Corporate Income Tax (CIT). Taxpayers are encouraged to approach the Lithuanian Agency for Science, Innovation and Technology (MITA) 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 3 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 3 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% 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, telecommunication, 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	
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, 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 tax 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 Agency for Science, Innovation and Technology (MITA). They can evaluate the project and provide expert conclusions. The taxpayer may apply for approval from MITA 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 2009–2023): Companies may reduce their taxable profits up to 100% 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 no more than 4 years. — Free Economic Zones (FEZ): Qualifying FEZ companies are exempt from corporate income tax for 10 taxable periods and are subject to 50% of the standard corporate income tax rate in subsequent 6 periods. Trade activities do not qualify for the incentive. The relief requires investment of at least EUR 1 million by a FEZ company. An alternative exists for FEZ companies rendering services—investment of at least EUR 100,000 but with an average minimum of 20 employees. At least 75% 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 2019–2023): An entity may deduct up to 75% of the funds provided for production of a film or its part in Lithuania from its taxable profit. Furthermore, the payable corporate income tax may be reduced up to 75% by the amount provided for film production. If the amount of funds exceeds 75% of corporate income tax 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% corporate income tax rate (instead of 15%) 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. — "Green corridor" for large-scale investment projects. Large-scale investment project that meets the required investments of at least EUR 20 million CAPEX (EUR 30 million when investing in Vilnius) and creating at least 150 new full-time jobs (200 when investing in Vilnius) in manufacturing, data processing, internet server hosting services may enjoy 0% corporate income tax 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 bureaucratical procedures.

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 Luxemburg's R&D policy is largely based on cash grants, tax incentives play also an important role in that policy.

The Luxembourg tax incentives for R&D consist of 3 key components: (i) The Luxembourg IP regime offering a 80% 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% 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 ("EEA"). 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 8% of the acquisition value of qualifying new investments up to €150,000 and 2% for the amount exceeding €150,000. In addition, a 13% credit is granted for additional investments in qualifying assets in a given tax year.

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Overview of R&D incentives

Headline rate	The Luxembourg IP box regime provides for an 80% exemption from Luxembourg Corporate Income Tax ("CIT") and Municipal Business Tax ("MBT") upon fulfilment of certain conditions. Moreover, IP assets that qualify under the regime may benefit from a 100% exemption from Luxembourg Net Wealth tax ("NWT"). The investment tax credit ("ITC") equals 8% of the acquisition value of qualifying new investments up to €150,000 and 2% for the amount exceeding €150,000. A 13% credit is granted for additional investments in qualifying assets in a given tax year.

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 which 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	In a nutshell, under the Luxembourg IP regime, net eligible income related to IP activity (f.ex. royalties, gain on sale or transfer of IP, IP related income that is embedded in the sale price of products or services) can in principle benefit from an 80% exemption from CIT and MBT upon fulfilment of certain conditions. The Luxembourg IP regime has been designed on the basis of the OECD BEPS Action 5, a basic element of which is 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% exemption. Typically, the nexus ratio should be 100% 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 its IP investment with some parts of acquired or related party outsourced IP. Under this mechanism, the regime offers a 30% lift-up of the eligible expenses to "compensate" for the exclusion of these costs. That way, the nexus ratio is prevented from falling to a point which 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 in certain assets (qualifying assets consist of 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)): — A tax credit for "global investment" on specified property equal to 8% of the total acquisition price of the qualifying assets until the first €150,000 and 2% for the portion exceeding €150,000. Please note that tax credit rates are increased to 9% and 4% for certain types of investments in ecological equipment. — A tax credit for "additional" investments in certain tangible property equal to 13% of the additional investment in a given year; The ITC reduces the final CIT due and can be carried forward for 10 years.

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 corporations (i.e patents and any IP rights equivalent to patents, software protected by copyright, plant variety certificates, phyto-pharmaceutical products and more), except notably for IP of commercial character (i.e., trademarks, etc); — The IP assets must have been constituted, developed or improved after December 31st, 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 R&D 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 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. Even though the filing of an advance tax clearance letter is not a requirement for the application of the IP regime, it is best-practice and provides 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 handicapped workers) may benefit from a special depreciation allowance up to 80% of the acquisition or production cost of the qualifying assets provided that it is at least EUR 2,400 (net of VAT). Note that this allowance may either be taken during the year of investment or one of the following 4 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 expatriate 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 governmental and institutional level, enabling the companies to profit of 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% for experimental development and 50% for industrial research; — Funding of feasibility studies with aid amount of 50% of the study costs; — Investment aid for research infrastructures with aid amount of 50% of infrastructure costs; — Aid for process and organizational innovation with aid amount of 15% of costs (if the company collaborates with a SME or private research institute); Please note the above aids are subject to specific conditions that must be assessed on a case by case basis.

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

Headline rate	Companies may deduct up to 200% 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% on qualifying capital expenditure incurred within 10 years, which can be offset against 70% of statutory income. Pioneer status with full tax exemption on statutory income for 5 years for 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% on qualifying capital expenditure incurred within 10 years, which can be offset against 70% of statutory income. Exemption from import duty, sales tax, and excise duty on importation of machinery and materials used for R&D activities 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 may deduct up to 200% of the eligible R&D expenditure against their business income. An approved Principal Hub may apply for a preferential corporate tax rate of 0%, 5% or 10% for up to 10 years of assessment. 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% tax exemption on its statutory income for 10 years or 10 years of assessment.

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
R&D tax relief Double deduction or ITA	**Double deduction or ITA [In-house R&D (manufacturing and agricultural industries)]** Companies may deduct up to 200% of the eligible R&D expenditure in respect of 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% of the eligible R&D expenditure in the first basis period in respect of its postpioneer 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% of the total R&D expenditure. Alternatively, the eligible companies may opt for an ITA of 50% on qualifying capital expenditure incurred within 10 years. This benefit can be offset against 70% 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 Double deduction or ITA	**Double deduction or ITA [In-house R&D (manufacturing and agricultural industries)]** 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.

R&D tax relief Tax exemption – PS or ITA	**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% on qualifying capital expenditure incurred within 10 years to be offset against 70% 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 like 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 Tax exemption – PS or ITA	**Tax exemption – PS or ITA [Contract R&D companies and R&D companies (manufacturing and agricultural industries)]** 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% of the company's income must be derived from R&D activities and at least 50% (for the manufacturing sector) or 5% (for the agriculture sector) of its workforce has to be qualified personnel performing R&D and technical functions.
R&D tax relief Indirect tax exemption on importation of machinery and materials used for R&D activities	**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 Indirect tax exemption on importation of machinery and materials used for R&D activities	**Indirect tax exemption on importation of machinery and materials used for R&D activities (In-house R&D or other qualifying R&D activities)** Applicable to approved research institutes/companies that purchase specific machinery/materials from overseas/locally to carry out R&D activities
R&D tax relief Double deduction	**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% of the eligible R&D expenditure against their business income.

Eligibility requirements Double deduction	**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)** 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.
R&D tax relief Full tax exemption for 10 years	**Full tax exemption for up to 10 years (Approved Operational Headquarter (OHQ) status/Principal Hub for R&D work carried out in Malaysia on behalf of its offices or related companies within or outside Malaysia)** Full tax exemption for up to 10 years on income from qualifying services. The OHQ incentive has been replaced by Principal Hub incentive with effect from May 1, 2015. Where the OHQ incentive period has not expired, the entity can continue enjoying the incentive until the end of the 10-year incentive period. Expatriates in the OHQ company pay individual income tax based on the number of days that they are in Malaysia. Under the Principal Hub incentive, new manufacturing or services companies may apply for a preferential corporate tax rate of 0% or 5% for up to 5 years of assessment (may be extended for another 5 years of assessment). Existing manufacturing or services companies and approved OHQ, with or without incentive, are only eligible for a concessionary rate of 10% for 5 years of assessment.
Eligibility requirements Full tax exemption for 10 years	**Full tax exemption for 10 years (Approved OHQ status/Principal Hub for R&D work carried out in Malaysia on behalf of its offices or related companies within or outside Malaysia)** The OHQ must have a minimum paid-up capital of MYR 500,000. There is also a minimum business spending requirement of MYR1.5 million per year. Finally, the company must carry out at least 3 qualifying services (one of which may be R&D) to a minimum of 3 related companies outside Malaysia. The OHQ can apply to be taxed at a concessionary rate of 10% for 5 years of assessment under principal hub incentive after the OHQ exemption period, subject to the fulfillment of specified conditions. The Principal Hub must have a minimum paid-up capital of MYR 2.5 million and minimum annual sales of MYR 500 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.

R&D tax relief Tax deduction on cost of investment or PS or full tax exemption	**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% 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 like 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% 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% 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 Tax deduction on cost of investment or PS or full tax exemption	**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 investor should own at least 70% of the investee. The commercialization must be implemented within 1 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 from September 29, 2012 to December 31, 2017. The tax incentive for the commercialization of non-resource-based R&D findings has been proposed to be reintroduced in the Malaysian 2021 Budget announced on November 6, 2020 (details have yet to be announced).

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.
R&D tax relief Other relevant information	**Approving authority** Applications are to be made to the Malaysian Investment Development Authority or the Inland Revenue Board, depending on the nature of the concession being claimed.
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% of the eligible R&D expenditure against their business income, provided that the R&D activity fulfills the definition of R&D and its qualifying criteria.

Mexico

Introduction

According to the Project for the Expenses Budget for 2021, the Mexican government intends to expand its activities for the application of scientific and technological knowledge to address, prevent, and solve high-impact national problems by concentrating its functions in several programs. In order to face specific problems of the use of natural resources, health, food, production, development, and research, among other needs, 26 research centers of the National Council for Science and Technology (hereinafter, CONACYT per its acronym in Spanish) are distributed all over the Mexican territory.

CONACYT is a public entity that is focused on the promotion of scientific and technological research. Such entity also seeks to lead Mexico toward a knowledge society through the application of knowledge and the strengthening of scientific and technological capacities all over the Mexican territory. In this regard for 2021, it is intended to assign CONACYT a budget of MXN$30 billion (approximately USD$1.4 billion), which represents an 18% increase of the authorized budget for 2020.

On the other hand, due to the pandemic caused by the COVID-19, CONACYT is currently promoting support for scientific research projects, technological development, and innovation in health with the aim of having immediate actions and research projects, aimed to contribute to the understanding, containment, and mitigation of the pandemic, as well as optimize the available resources and generate the necessary evidence for decision-making.

As mentioned above, it is important to point out that the Mexican government provides an R&D tax incentive with the aim of promoting the scientific research, as well as innovating, developing, and modernizing of technology. Therefore, the Mexican Tax Authorities provide a tax credit on expenses and investments made for research and development of technology.

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Overview of R&D incentives

Headline rate	It is important to point out that there is not a specific rate for the R&D premium; moreover, the corporate income tax rate in Mexico for FY 2020 is 30%, which will remain the same for FY 2021. Moreover, the Mexican Tax Authorities currently provide a tax credit equal to the 30% of expenses and investments made for research and development of technology, which should be applied to the annual corporate income tax determined.

Definition of R&D	According to CONACYT, R&D activities are those conducted by an enterprise, preferably in association with universities or investigation centers, that perform, develop, and innovate in strategic knowledge areas. The activities must have a significant impact on national competitiveness, generate valuable products, produce services and processes, encourage human resources of a higher level, and contribute to a strategic economic sector.
R&D tax credit	Mexico reintroduced the R&D tax credit in 2017; moreover, this tax credit was not available from 2009 to 2016. In this sense, a tax credit rate of 30% applies over the eligible R&D expenditure in excess of the average R&D expenses incurred within the previous 3 FYs. It is important to bear in mind that the unused credits can be carried forward over 10 FYs. In addition, a ceiling of MXN$50 million (approximately USD$2.1 million) applies to the value of the R&D expense.
Eligibility requirements	In order to be entitled to claim the R&D program support, an enterprise should meet the following requirements: — Carry on R&D activities for at least 3 years — Not to be supported by another program — To be registered before the Mexican Tax Authorities offices in order to obtain a tax identification number (RFC per its acronym in Spanish) — To be established within Mexican territory according to the Mexican laws as a General Partnership, Corporation, Limited Liability Partnership, Public Company, Investment Promotion Stock Company, Limited Partnership, Joint Stock Company, or Rural Production Company — To have complied on time with its tax obligations, payments, and submission of tax returns — To be duly registered within the Companies Registry (REINECYT) — To have the supporting documentation (electronic tax invoices or CFDI) of its expenses and investments.
Registration/claim process	The enterprise must be authorized as a recipient of the support provided by the CONACYT. In addition, the enterprise may apply its tax credits within its tax returns. Finally, the enterprise must keep its accounting information and tax determination working papers for documentation purposes.
R&D tax credit Other relevant information	According to the Mexican Income Tax Law, when the tax credit is greater than the payable income tax in the FY in which the incentive is applied, the taxpayers may credit the difference that results to the payable income tax during the following 10 FYs until finished. If the credit is not applied during 1 of the 10 FYs, the right of credit will be lost in subsequent exercises and up to the amount not credited. Requirements of the expenses and investments: — Should be carried within Mexican territory — Should be used for the execution of projects focused on the development of products, materials, or production processes — Should be used for scientific or technological projects

Other grants and incentives	Additionally, CONACYT offers, among others, the following funds: — Sectoral Funds whose funds are trusts created to allocate resources for scientific research and technological development in the corresponding sectors — Mixed Funds is an instrument to support the state and municipal scientific and technological development through a government trust — Institutional Funds whose funds are regulated in the Science and Technology Mexican Act. — Institutional Support which provides funding to the Support Program for Scientific, Technological and Innovation Activities.

Netherlands

General

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 the new OECD standards such as the modified nexus approach.

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Overview of R&D incentives

Headline rate	Income qualifying for the Dutch Innovation Box is effectively taxed at a reduced corporate income tax rate of 9% (achieved through the 64% exemption of qualifying income). Costs for research and development 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: a. Development of products, processes, or software, or b. 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% effective corporate income tax rate, which is achieved through exempting 64% if the Innovation Box income. Qualifying income includes licensing income (i.e.,royalties) but also includes 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 Dutch 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 whether it is a Dutch or foreign patent) 2. Computer programs (i.e., the intangible assets qualifies 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 Octrooicentrum Nederland as continuation of an earlier patent 6. A registered utility model (e.g., a German "Gebrauchmuster"), 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 01, 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 of 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 * 1.3/total R&D costs x 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% 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 a 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 Corporate Income Tax 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 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 3 types of expenditure on qualifying projects: i. Salary cost of employees working on the project ii. Cost items that are directly attributable to the project iii. 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% of the invested amount. The amount of the tax credit equals 50% of the first EUR 350,000 of qualifying cost (employment related and other) if the company qualifies as a start-up and 40% in other cases. The rate is 16% on the excess over EUR 350,000. 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 45% of the invested amount up to EUR124 million can be deducted for CIT purposes. In scope are assets that 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 13.5%, 27% or 36% 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% 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 deprecation 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 3 months of it having been made.

30% ruling for inbound expatriates

If a company needs specialists from outside the Netherlands for carrying out its R&D program, the 30% 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.

Qualifying employees are deemed to incur extraterritorial costs amounting to 30% of their employment income. The employer is therefore allowed to pay 30% of the employment income as a tax-free allowance during a five-year period.

In order to qualify for the 30% ruling, employees must meet certain conditions.

New Zealand

Introduction

New Zealand offers a 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

Headline rate	Organizations can avail themselves of a 15% 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	**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	For the 2019–2020 tax year, the process follows the traditional R&D filing model, whereby the project description and costing information are filed at approximately the same time as the due date for the income tax return. From the 2020–2021 tax year onward, by default, the project description information 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. 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, that is, the projects can be approved earlier, but the funding will only be received until after the return is submitted. For organizations with more than $2 million of R&D expenditure, it is possible to opt out of the default method and elect into 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 actually conducts 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.

R&D tax relief	Eligible expenditure
Other relevant information	— 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% 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: — Net loss x 28% — Total R&D spend x 28% — Total R&D labor expenditure x 1.5 x 28% or — NZD 476,000 in the 2019–2020 tax year and NZD 560,000 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; or — If there is a greater than 90% 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 project grants with cofunding up to 40%. **Energy Efficiency and Conservation Authority** Supports the development of energy efficiency solutions, including the Technology Demonstration Fund, which cofunds up to 40% of eligible project costs up to NZD 100,000 **Ministry of Business, Innovation and Employment** Provides various forms of support to businesses, including the Te Pūnaha Hihiko Fund, which enables research that supports the use of Māori knowledge and resources. **Westpac-Government Innovation Fund** Supports projects that improve government service delivery or creates value for Westpac bank and which is endorsed by a government agency **NZ Growth Capital Partners** The Aspire Fund invests in seed-stage technology companies alongside angel networks and other private investors. **AgMardt** Support for agribusiness in identification of market opportunities, technology development, and developing management capability and governance **Ministry of Primary Industries** Sustainable Food & Fibres Futures Fund supports research, product development, and process improvement in the primary industry and throughout the value chain. **New Zealand Trade & Enterprise** Supports international expansion, including market research, networking, and grant funding.

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% of research and development (R&D) project costs. In addition, partially state-owned organizations and governmental agencies, such as Innovation Norway (Innovasjon Norge), provides 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:

- 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, insight, 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 file RF-1053 tax form approved by a state authorized auditor as part of the annual tax return. Based on the SkatteFUNN incentive, a taxpayer may be granted credit against tax and national insurance contribution for 19% 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.
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 a small and midsize enterprise (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

Headline rate	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 science for the extension of knowledge.
R&D tax relief Tax deduction for R&D expenditure	**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 3 years starting in the year of first use, while the tax depreciation rate is set at 33.33% 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% 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 historic claims. Although the 150% 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.
R&D tax relief 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.
Other grants and incentives	Not applicable

Philippines

Introduction

The Philippines offers a 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

Headline rate	Regional operating headquarters (ROHQs) are eligible for a reduced income tax rate of 10%. However, under the pending tax reform measure named Corporate Recovery and Tax Incentives for Enterprises (the CREATE bill), tax incentive regimes will be revised for all industries or sectors.
Definition of R&D	The NIRC and the 2017 IPP do not provide definitions of R&D or R&D expenditures.
R&D tax relief Tax deduction for R&D expenditure	**Tax deduction for R&D expenditure (Individuals and companies)** 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 Tax deduction for R&D expenditure	**Tax deduction for R&D expenditure (Individuals and companies)** Individuals must derive business income. Individuals and corporations must be subject to the regular income tax rate (graduated rates for individuals with 35% as top rate and 30% for corporations) based on taxable income.

R&D tax relief Reduction of income tax rate to 10%	**Reduction of income tax rate to 10% (ROHQs)** Pursuant to Executive Order No. 226, otherwise known as the Omnibus Investments Code, as amended, ROHQs enjoy the reduced income tax rate of 10%. However, a pending tax reform measure (popularly referred to as the CREATE bill) aims to subject ROHQs to the regular income tax rate 2 years from the effectivity of the proposed law.
Eligibility requirements Reduction of income tax rate to 10%	**Reduction of income tax rate to 10% (ROHQs)** ROHQs refer to a foreign business entity that is allowed to derive income in the Philippines by performing qualifying services to its affiliates, subsidiaries, or branches in the Philippines, in the Asia-Pacific region, and in other foreign markets. Qualifying services include R&D services and product development.

R&D tax relief
 	
2017 Investments Priorities Plan (IPP)
	2017 IPP (R&D service providers)
	
	In general, incentives to registered activities will be the following:
	— Income tax holiday (ITH)
	  – 6 years for projects with pioneer status and projects located in a Less Developed Area (LDA),
	  – 4 years for new projects with non-pioneer status
	  – 3 years for expansion/modernization projects
	— Duty exemption on imported capital equipment, spare parts and accessories.
	— Exemption from wharfage dues and any export tax, duty, impost and fees
	— Rax exemption on breeding stocks and genetic materials
	— Tax credits on imported raw materials
	— Tax and duty-free importation of consigned equipment
	— Additional deduction for labor expense
	— Employment of foreign nationals
	— Simplification of customs procedures
	— Access to bonded manufacturing warehouse.
	
	However, under the pending tax reform measure (the CREATE bill), the tax incentive regime will be revised. The changes will affect all industries or sectors. The tax incentives to be granted will be limited to those granted in the bill and only to the extent of the enterprise's approved registered activities or the activities under the Strategic Investment Priority Plan (or the SIPP). Further, the CREATE bill seeks to limit the enjoyment of incentives already granted to existing registered activities.

Eligibility requirements 2017 IPP	**2017 IPP (R&D service providers)** Under the 3-year rolling plan of the 2017 IPP, R&D activities registered with the Board of Investments (BOI) and entitled to incentives cover all R&D activities and the establishment and operation of facilities for the conduct of clinical trials including drug trials (e.g., contract research organization or CRO).

Registration/claim process	In order to qualify for R&D incentives under the 2017 IPP, registration with the BOI is necessary. Further, 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. Taxpayers who want to claim their R&D expenditures as ordinary and necessary business expenses may do so by indicating said expenses in their income tax returns.
R&D tax relief 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 registered CROs, a copy of the permit from the Food and Drug Administration must be submitted to the BOI before the conduct of each clinical trial.
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% as top rate and 30% 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 stage of their activity.

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Overview of R&D incentives

Headline rate	There is a new tax incentive designed to encourage companies to invest in R&D—additional setoff of R&D costs against taxable income up to 100% 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, including knowledge of man, culture, and society, and the use of this stock of knowledge to devise new applications. There are 3 stages of R&D work: fundamental research, industrial research, and 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: — 100% of salaries of employees engaged in research and development activities (50% from 2017) — 100% of other related expenses on research and development activities (including depreciation). Note: In 2017, 50%/30% for SME/large enterprise and in 2016, 20%/10% for SME/large enterprise. Additionally, Poland allows special tax deductions for entities having the R&D center status, which is R&D tax relief of 150% since 2018.

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 research and development 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 PLN 2.5–5 million, where at least 70% of those revenues result from R&D services or at least PLN 5 million, where at least 20% 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% 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. 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% 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 2020. 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% of investment/2 years' employment cost. 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% and 82.5% of the eligible R&D annual expenses.

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Overview of R&D incentives

Headline rate	A tax credit between 32.5% and 82.5% of the eligible R&D annual expenses may be granted. This tax credit may be deducted 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 eight FYs.
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—including knowledge of humankind, culture, and society—and to devise new applications of available knowledge.
R&D tax credit	SIFIDE tax credit may correspond to the sum of: — A basic credit, equal to 32.5% of the qualifying expenses for the relevant year — An additional credit, equal to 50% of such expenses' increase regarding the average of the previous two years, with a ceiling of 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 eight FYs.

R&D tax credit	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 graduated employees directly involved in R&D activities (which may be increased in 20% points for expenses with PhD employees) — Operating expenses related to the R&D activities, up to 55% of the abovementioned expenses with employees; — 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 since the applicability of this rule will be based on the share of risks, costs, advantages, and benefits agreed, the involved parties of the project.
Eligibility requirements	In order to make use of the credit, the qualifying investor (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 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 incentive.
Registration/claim process	An application form should be submitted before the end of the fifth month of the year following the year in which the expenses were incurred, not being accepted applications referring to expenses incurred in prior years. The SIFIDE tax credit decision by the Competent Authorities may be usually notified within seven months. 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.

Other grants and incentives	R&D and Innovation incentives are 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 2020 for technological R&D, corresponding to a cash grant of 25% for up to 80% of the eligible expenses. Additionally, the Portugal 2020 initiative foresees financial incentives systems: i. For innovation, by providing a potential cash grant from 15% up to 37.5% added, for SME and, under specific conditions, of an interest-free loan up to 37.5%; and ii. For the qualification and internationalization of SME, corresponding to a cash grant of 45% of the eligible expenses (for specific expenses this incentive rate may be increased). 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 evaluate the investor strategic business case (investments and financial forecast) on a forward-looking approach in order to optimize and anticipate future tax and incentives efficiencies in Portugal.

Romania

Introduction

R&D incentives have been available in the Romanian fiscal legislation since 2009, and they currently consist of a corporate tax super deduction (50%) for qualifying expenses, applying the accelerated depreciation regime for the 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 OECD's Frascati Manual and in European Commission Regulation (EC) No 651/2014. Fundamental research means experimental or theoretical activities carried out mainly with the scope of acquiring new knowledge regarding the underlying structure of phenomena or observable facts, without pursuing any specific practical usage. Applied research (industrial research) represents an activity aimed at acquiring new knowledge in view of achieving a specific practical objective. Technological development (experimental development) means using knowledge and skills acquired through research or practical experience, with the aim of developing new materials, products or devices, processes, systems or services, or significantly improving existing ones. This may include, for example, planning and documentation of new products, processes or services; prototyping, demonstrating, piloting, testing, and validation of new or improved products, processes, or services. 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% 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	Additional deduction of 50% 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 animals included in the studies, or other similar goods used in the R&D activities — Overheads that can be directly or proportionally allocated using an allocation key (e.g., rent and utilities, 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 performed 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 his or her own activities. Tax incentives are granted separately to each entity that performs R&D activities and records the related eligible expenses. If R&D is performed by a subcontractor, on request, tax incentives are granted to the subcontractor.
Registration/claim process for the R&D expenses specific deductions	In order to benefit from the above-mentioned tax incentives, companies must be subject to profit tax in Romania. Tax incentives can be claimed by taxpayers in tax returns, subject to tax audit. Although no prior registration is required, there are certain formal requirements to apply the incentives, such as documenting R&D projects (e.g., scope, financing, objectives, activities, and results).
Personal income tax exemption for employees involved in R&D	The salary income derived by employees involved in R&D projects may be exempt from personal income tax, subject to certain conditions (e.g., the employer is part of the national R&D system as per definitions provided for under the law, the employee should be included in the team of a formally defined R&D and innovation project, the salary derived by the employee for his or her contribution to the project should be included in the estimated salary budget of the project). In order to apply the incentives, the employer has the responsibility to evaluate the projects carried out by its employees and determine whether the relevant legal criteria are met. Upon meeting the mandatory legal provisions, the employer can apply the incentive directly, without prior validation by the authorities.
Grants and other incentives	Employees involved in software development activities may be exempt from personal income tax, subject to fulfillment of certain conditions provided for under the law.

Russia

Introduction

To stimulate an innovative and development sector, the Russian government provides a number of tax incentives to R&D companies. In particular, they may:

- Deduct 150% of actual costs on R&D
- Apply accelerated coefficient (up to 3) for depreciation
- Create provision on R&D expenses
- Obtain investment tax credit
- Educational and medical R&D companies could apply 0% rate of profits tax. Certain R&D activities are exempted from VAT.

R&D activities could be taxed at lower profits tax and property tax rates (or exempt for certain companies) in certain Russian regions.

Information technology companies may apply reduced social security contribution rates up to 2023.

A wide range of tax incentives are applicable by special economic zones, advanced development territories, and Innovation Skolkovo Center residents.

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Overview of R&D incentives

Definition of R&D	R&D expenses incurred to create new or improve current, goods, works and services provided, technologies, production, and management methods include: — Depreciation of fixed assets (except buildings and constructions) and intangibles used for R&D activities — Payroll expenses for employees engaged in R&D — Material expenses related to R&D activities — Other expenses related to R&D activities not exceeding 75% of the payroll expenses for employees engaged in R&D — Contractual expenses for R&D activities outsourced by the taxpayer — Contributions to the scientific and innovation fund based on the respective legislation not exceeding 1.5% of the taxpayer's sales.

R&D expense deductions	Irrespective of the result of the R&D activities, abovementioned expenses (except the latter) are deductible for corporate income tax purposes in the tax period when such activities are finished. The latter expenses are deductible in the period when such expenses are incurred. Certain R&D expenses determined by the Russian government may be deducted up to 150% in the period when such activities are finished. A specific report complying with Russian State Standards should be provided to the tax authorities. The list of the eligible R&D areas is exhaustive and includes bio-information technologies, nanotechnologies, nuclear power engineering, sea and space technologies, etc. Taxpayers are allowed to apply a multiplying coefficient (not more than 3) to the general depreciation rate with regard to fixed assets used in R&D activities. Taxpayers are allowed to create a provision for R&D expenses under each separate R&D research program for the planned period, but no more than 2 years. Educational and/or medical organizations performing R&D activities may apply 0% profits tax rate if certain eligibility criteria are met (see below). Additionally, regional tax legislation may provide reduced tax rates for certain types of R&D activities (see below).
Eligibility requirements	The costs are deductible for tax purposes if they are in accordance with the government-approved list for R&D expenses. For application of 150% deduction of R&D activities, a special report should be provided. Educational and/or medical organizations performing R&D activities may apply 0% profits tax rate if the following eligibility criteria are met: — Educational and/or medical activities are included in the list approved by the Russian government. — Licenses for execution of such activities are in place. — 90% of their income is derived from educational and/or medical and R&D activities. — In the organization performing medical activities, the number of medical staff with specialist certificates out of the total number of employees is not less than 50% — The organization has at least 15 employees. — The organization does not perform operations with promissory notes and forward financial instruments.
Registration/claim process	In relation to the investment tax credit and reduced profits tax rates applying for R&D activities (i.e., application of 0% rate), the taxpayer should submit a request to the tax authorities and provide additional information where relevant. The taxpayer should be registered as a resident of special economic zones, advanced development territories, or the Innovation Center in Skolkovo.

R&D tax credit	An investment tax credit is granted to the companies performing certain activities, including R&D. In general, the investment credit may be granted for a period of 1 to 5 years (10 years in relation to residents of advanced development territories) at an interest rate half to 3-quarters of the effective Central Bank rate. The maximum amount of investment tax credit should not exceed 50% of tax to be paid and 100% of fixed assets that are to be used in R&D activity or the amount agreed with the tax authorities. In order to claim investment tax credits, the taxpayer should submit a request for the tax authorities.
Other grants and incentives	Property tax regional legislation may provide exemption from property tax to certain taxpayers scientific and educational organizations for fixed assets used in R&D activities. VAT exemption could be applied for: — R&D activities related to the creation of new production and technologies — R&D activities financed out of State Budget and special funds — Transfer of intellectual property rights for software, databases, inventories, and know-how, including transfer under license agreements — Import of materials without Russian analogues to be used in R&D activities. IT companies may apply for reduced social security contributions at a rate of 14% up to 2023 (compared with the regular rate of 30% if the following requirements are met (revised annually): — The company has the state accreditation in the field of IT. — The company develops and implements computer programs and databases and (or) provides services (activity) on the development, adaptation, modification of computer programs and databases, etc. — Income from direct activities in the field of IT is not less than 90% of total revenues for the organization in the previous period. — The average number of employees of the IT company for 9 months of the previous period was at least seven people.
Special economic zones and advanced development territories	Several special economic zones for technological development have been created in Russia (industrial and production zones; technology and innovation zones; tourist and recreational zones; and port zones). Advanced development territories have been created in several regions (mainly in the Far East) and provide a wider range of benefits. Each advanced development territory has a list of permitted activities, and some of them allow R&D activities. Companies should be registered in the territory of special economic zones or advanced development territories and conclude an agreement with the managing bodies of special economic zones or advanced development territories and state authorities on the performance of eligible technological and innovation activities. To run into agreement with managing bodies of advanced development territories, the company should make a certain amount of investments.

Residents of special economic zones benefit from the following tax incentives:	— Reduced corporate profits tax rate (up to 15.5% compared to a general rate of 20%) — Exemption from property tax, land tax during the first 5 years (10 years for property tax) starting from the date of posting the property (vehicle) to accounts (acquiring property rights for the land plot) — Reduced social insurance contributions of development and innovation special economic zones of 7.6% compared to a general rate of 30% — Delayed payment of VAT and customs duties until products are exported from a special economic zone to the rest of Russia — Exemption from transport tax and other incentives if stipulated by the local laws of special economic zones. Residents of advanced development territories could be eligible for the following tax incentives instead of the corresponding incentives mentioned above: — Reduced corporate profits tax rate (not more than 5% in the first 5-year period, not less than 10% in the following 5 years compared to a general rate of 20%) — VAT refund on declarative basis (as well as delayed payment of VAT and customs duties) — Reduced social insurance contributions rates to 7.6% for 10 years.
Skolkovo Innovation Center	Residents of the Skolkovo Innovation Center are permitted to apply the following tax incentives: — Exemption from corporate profits tax, property tax, and land tax — Reduced rate for social contribution payments—14% compared to the general rate of 30% — Ability to opt for VAT exemption. The above incentives are available for 10 years from the moment of registration or until the resident's annual sales revenue exceeds 1 billion Russian ruble (RUB) and the profit exceeds RUB300 million.

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

Headline rate	250% tax deduction for expenditure on qualifying R&D activities Reduced corporate tax rate (5% or 10%) on qualifying IP income for approved Intellectual Property Development Incentive (IDI) companies (New) 200% tax deduction for qualifying expenditure pertaining to the registration of IP rights (subject to a cap) 200% tax deduction for qualifying expenditure pertaining to IP in-licensing (subject to a cap)
Definition of R&D	Any systematic, investigative, and experimental study that involves novelty or technical risk carried out in the field of science or technology with the object 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
R&D tax relief Enhanced tax deduction for R&D expenditure	**Enhanced tax deduction for R&D expenditure (all businesses, all industry sectors)** Enhanced tax deduction of 250% on qualifying expenditure, effective for the Years of Assessment (YA) from 2019 to 2025, for R&D carried out in Singapore. There is no cap on amount of eligible R&D expenditure. This provides effective benefit of up to 42.5% of the eligible R&D expenditure. Unutilized deductions may be carried forward indefinitely, subject to the satisfaction of the shareholder continuity test or transferred to other related entities under the Group Relief system.

Eligibility requirements Enhanced tax deduction for R&D expenditure	**Enhanced tax deduction for R&D expenditure (all businesses, all industry sectors)** 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% 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 a R&D cost-sharing arrangement.
Tax relief for IPR registration costs Enhanced tax deduction for registration of IP rights	**Enhanced tax deduction for registration of IP rights (IPRs) (all industry sectors)** Enhanced tax deduction of 200% on up to SGD100,000 of qualifying IP registration costs incurred in each YA in the period between YAs 2019 and 2025. Tax deduction of 100% applies for any expenditure incurred beyond the above expenditure allowances (i.e., above SGD100,000). Unutilized deductions may be carried forward indefinitely subject to the satisfaction of the shareholder continuity test or transferred to other related entities under the Group Relief system.
Eligibility requirements Enhanced tax deduction for registration of IP rights	**Enhanced tax deduction for registration of IP rights (IPRs) (all industry sectors)** Companies must own the legal and economic rights of the IPR.
Tax relief for IP licensing costs Enhanced tax deduction for IP licensing	**Enhanced tax deduction for IP licensing (all industry sectors)** Enhanced tax deduction of 200% on up to SGD100,000 of qualifying IP licensing expenditure incurred in each YA in the period between YAs 2019 and 2025. Tax deduction of 100% applies for any expenditure incurred beyond the above expenditure allowances (i.e., above SGD100,000). Unutilized deductions 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.
Eligibility requirements Enhanced tax deduction for IP in licensing	**Enhanced tax deduction for IP licensing (all industry sectors)** Companies that incur IP licensing expenditure to license IPRs for use in their business

Registration/claim process Enhanced tax deduction for R&D expenditure Enhanced tax deduction for registration of IP rights Enhanced tax deduction for IP licensing	**Enhanced tax deduction for IP licensing (all industry sectors)** **Registration** Unless otherwise stated above, the claims for enhanced deductions do not require any presubmission approval or registration. Notwithstanding the above, a preapproval process of larger projects may be available to companies (case-by-case basis) to provide them with up-front certainty. **Claiming the concession** The claim for the enhanced tax deduction 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.
Innovation tax relief Intellectual Property Development Incentive	**IDI (all industry sectors)** An approved IDI company is eligible for a reduced corporate tax rate of either 5% or 10% on qualifying IP income derived by it during the incentive period. The incentive period is limited to an initial period not exceeding ten years and may be further extended for a period or periods not exceeding ten years each.
Eligibility requirements Intellectual Property Development Incentive	**IDI (all industry sectors)** Companies must 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.
Registration/claim 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.
Other grants and incentives	Acquisition costs of eligible IPRs can be deducted for tax purposes on a straight-line basis over a period of 5, 10, or 15 years by way of a writing down allowance. The claimant must own the legal and economic ownership rights. If only economic ownership rights are owned, an application to relevant economic agencies may be made for the writing down allowances. Full or partial withholding tax exemption on payment of royalties/licenses to nonresidents is available for qualifying activities, subject to application, and approval by the relevant economic agency. Investment allowances are available for the acquisition of IPRs subject to application and approval by the relevant economic agency. Various grants are available to encourage R&D activities in Singapore. The grant support provides up to 70% of eligible R&D costs for R&D undertaken in Singapore. The grants can support R&D activities in a wide range of industries such as fintech, financial services, insurance, marine, manufacturing, logistics, etc.

Slovakia

Introduction

To further encourage investment in innovation, Slovakia has recently increased its R&D super-deduction to an additional 200%. 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%.

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Overview of R&D incentives

Headline rate	An R&D super-deduction is available of up to an additional 200% of qualifying R&D costs. Furthermore, a taxpayer main increase the deduction by 100% of average annual increase in R&D expenditures. The Patent Box scheme provides an exemption against 50% income earned from the sale of patented product 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 200% deduction of eligible R&D costs (applicable from January 1, 2020). 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, and — 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% of income earned. The exemption will also apply to 50% 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 tax incentive is an effective additional 50% "super" tax deduction on eligible R&D expenditure incurred in South Africa. This equates to an effective 14% tax benefit. For example, if 10 million South African rand (R) is spent on eligible R&D, the tax saving will be R1.4 million (R10 million eligible spend x 50% super-deduction x 28% corporate tax rate).

The additional 50% R&D tax deduction can only be claimed from the date that a preapproval application form has been lodged with the Department of Science and Innovation (DSI). This means that expenditure incurred on or after the date of lodging the application will be eligible. An adjudication committee will evaluate the merits of each preapproval application. The committee will be staffed by 3 members from the DSI, 3 members from the South African Revenue Service (SARS), and one member from National Treasury.

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Overview of R&D incentives

Headline rate	The R&D tax incentive offers an effective additional 50% tax deduction (over and above the usual 100% deduction allowed on revenue expenditure) on qualifying R&D revenue expenditure. Additionally, a pilot/prototype plant exclusively used for R&D may be claimed at 150% and written off in the year that it is bought into use rather than writing off these assets over a period of time. Accelerated allowances are available for machinery and plant (other than a pilot/prototype plant) acquired/brought into use for the purpose of R&D—50% in the year it is brought into use, 30% in the year thereafter, and 20% in the third year.
Definition of R&D	R&D is defined as a systematic investigative or systematic experimental activities of which the result is uncertain for the purpose of: — Discovering nonobvious scientific or technological knowledge — Creating or developing: – An invention – A functional design – An innovative computer program – Knowledge essential to the use of the items above

	— Significantly and innovatively improve an invention, design, computer program, or knowledge thereto for the purpose of: – A new or improved function – An improvement of performance – An improvement of reliability – An improvement of quality — Creating or developing a multisource pharmaceutical product — 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 undertaken must be done from within South Africa to qualify. There is no requirement that resultant intellectual property is held in South Africa.
Registration/claim process	In order to claim the additional 50% tax deduction a preapproval form must be submitted for each project to the DSI. If approval is granted, eligible expenditure may be claimed from submission date.

Other government incentives

Now the Department of Trade, Industry and Competition (DTIC) and the South African Revenue Services (SARS)" offer a variety of incentives in the form of cash grants and/or tax deductions, some of which are listed below:

Government incentives	S12H Learnership allowance	S12L Energy efficiency	Critical Infrastructure Program	Global Business Services
Benefits available	The benefit ranges between R20,000 and R60,000 depending on when a learnership agreement is entered into and completed.	A tax deduction is available to taxpayers in respect of energy savings. The deduction is 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 of energy savings.	10% to 30% cash grant of the total qualifying infrastructural development costs, to a maximum of R50 million	Average cash incentive of R26,000–R60,000 per job retained (2019 to 2028). Twenty percent to 30 percent bonus if >100 highly complex jobs, >200 complex jobs, or >500 noncomplex jobs are created and maintained.

Government incentives	S12H Learnership allowance	S12L Energy efficiency	Critical Infrastructure Program	Global Business Services
Minimum investment required	None	None	None	Must create at least 30* new jobs within 3 years from start of operations, and employ at least 60%* youth. *Dependent on tier. A minimum wage of R5,000 p/m (or a minimum of R4,000 p/m for the first twelve months of employment for inclusively hired resources)
Type of benefit	Tax allowance	Tax allowance	Cash incentive	Cash incentive
Timeframe	The incentive is available to employers who have entered into registered learnership agreements on/after October 1, 2001 but before April 1, 2022.	Entities may only claim the allowance once a certificate from the South African National Energy Development Institute (SANEDI) has been received.	Applications must be submitted at least 60 calendar days before start of construction of infrastructure.	Must commence operations and employment not later than 6 months from the approval date.

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 beneficiated products through the establishment of SEZs. SEZs are geographically designated areas of the country, attracting targeted economic activities, which are supported and incentivized through a range of measures including tax incentives (e.g., VAT and customs relief, employment tax incentive, and reduced 15% corporate tax rate).

The activities targeted are businesses conducting manufacturing and businesses performing internationally tradable services as well as businesses providing warehousing and distribution and logistical services. Companies that provide goods and services to the companies in the SEZ may also apply for the dispensation.

The SEZ legislation builds on the Industrial Development Zone (IDZ) dispensation and provides for the existing IDZs at Richards Bay, Coega, East London, O.R. Tambo, and Saldanha Bay to be transitioned into SEZs. In addition, the SEZs have been identified across all provinces and include Tubatse and Musina in Limpopo, Nkomati in Mpumalanga, Rustenburg in the North West province, Atlantis in the Western Cape, Upington in the Northern Cape, Mthata in the Eastern Cape, Dube TradePort in KwaZula-Natal, Harrismith in the Free State, and Gauteng.

Six SEZs have already been approved by the Minister of Finance. However, it was announced as part of the 2020 National Budget Speech that the tax incentive offered under the SEZ regime will not be extended beyond the currently approved SEZs.

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

Headline rate	Small enterprises in South Korea are eligible for tax credit of either 50% of the eligible R&D expense amount in excess of prior years' R&D expenditure or 25% of the eligible R&D expense amount, whichever is greater. Midsize enterprises in South Korea are eligible for tax credit of either 40% of the eligible expense amount in excess of prior years' R&D expenditure or 8% of the eligible expense amount, whichever is greater. Large enterprises in South Korea are eligible for tax credit of either 25% of the eligible R&D expense amount in excess of prior years' R&D expenditure or a maximum 2% of the eligible R&D expense amount, whichever is greater. For companies located in R&D Special Zones, corporate income tax is fully exempted for the first 3 years and 50% exempted for the subsequent 2 years. South Korea's central and local governments may provide cash grants to foreign investors who invest at least 30% 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 "research and development" 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 contents 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	**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 4 years; or prior year's R&D expenditure is smaller than average R&D expenditure incurred in the previous 4 years). The amount of the tax credit for enterprises is computed as either (i) 50% of the eligible R&D expense amount in excess of prior years' R&D expenditure or (ii) 25% 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% of current R&D spend.

Eligibility requirements Tax credit on R&D spend	**Tax credit on R&D spend (midsize 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 higher (the incremental spending basis method cannot be selected if no R&D expenditure was incurred in the previous 4 years or prior year's R&D expenditure is smaller than average R&D expenditure incurred in the previous 4 years). For midsize enterprises, the tax credit is computed as either (i) 40% of the eligible expense amount in excess of prior years' R&D expenditure or (ii) 8%* of the eligible expense amount, whichever is larger. *If a small enterprise is reclassified as a midsize enterprise in a specific year, the applicable rate is 15% for the first 3 years from the start date of such tax year and 10% for the following 2 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% (maximum 40% for KOSDAQ-listed midsize companies) of current R&D spend.
R&D tax relief Tax credit on R&D spend	**Tax credit on R&D spend (large 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 4 years or prior year's R&D expenditure is smaller than the average R&D expenditure incurred in the previous 4 years). For large companies, the tax credit is computed as either (i) 25% of the eligible R&D expense amount in excess of prior year's R&D expenditure or (ii) a maximum 2% of the eligible R&D expense amount, whichever is larger. 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% of current R&D spend.
R&D tax relief Tax exemption for company located in R&D special zone	**Tax exemption for company located in R&D special zone** Corporate income tax is fully exempted for the first 3 years and 50% exempted for the subsequent 2 years
Eligibility requirements Tax exemption for company located in R&D special zone	**Tax exemption for company located in R&D special zone** A company located in a designated R&D special zone performing R&D activity related to a specific industry as listed in the South Korean tax law (e.g., bio-technology, IT technology, etc.) and satisfying certain certification or registration requirements by December 31, 2021 is eligible for this exemption.

R&D tax relief Tax exemption on IP lease	**Tax exemption on IP lease (small enterprises)** 25% of corporate income tax on the income from lease of IP is exempted.
Eligibility requirements Tax exemption on IP lease	**Tax exemption on IP lease (small enterprises)** Certain types of IP, as prescribed by the South Korean tax law, researched and self-developed by a small enterprise and leased to another party (except for related parties) by December 31, 2021 are eligible for this exemption.
R&D tax relief Tax exemption on IP transfer	**Tax exemption on IP transfer (small enterprises)** 50% of corporate income tax on the income from transfer of IP is exempted.
Eligibility requirements Tax exemption on IP transfer	**Tax exemption on IP transfer (small enterprises)** Certain types of IP, as prescribed by the South Korean tax law, researched and self-developed by a small or midsize enterprise and transferred to another party (except for related parties) by December 31, 2021 are eligible for this exemption.
R&D tax relief Nontax cash grants	**Nontax cash grants (foreign-invested R&D center)** The amount and payment of cash grant is determined by the relevant government authorities and the foreign investment committee.
Eligibility requirements Nontax cash grants	**Non-tax cash grants (Foreign-invested R&D center)** South Korea's central and local governments may provide cash grants to foreign investors who invest at least 30% in new establishment or expansion of a 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 3 years or more, or a master's degree in a high-technology service area.
R&D tax relief Individual income tax exemption for foreign engineers	**Individual income tax exemption for foreign engineers** 50% income tax exemption applies from the date the employment in South Korea commences and up to the month in which the 5th year anniversary falls.

Eligibility requirements Individual income tax exemption for foreign engineers	**Individual income tax exemption for foreign engineers** 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 a contract to adopt engineering technology are eligible for this exemption. The foreign engineers should not be South Korean citizens and should commence their services in South Korea before December 31, 2021.
R&D tax relief Individual income tax exemption for South Korean engineers returning from abroad	**Individual income tax exemption for South Korean engineers returning from abroad** 50% income tax exemption applies from the date the employment in South Korea commences and up to the month in which the 5th year anniversary falls.
Eligibility requirements Individual income tax exemption for South Korean engineers returning from abroad	**Individual income tax exemption for South Korean engineers returning from abroad** 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 the fields of science, engineering, or medicine) 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 before December 31, 2022.
Registration/claim process Individual income tax exemption for foreign engineers	**Tax credit on R&D spend/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 spend) should be filed with annual corporate income tax return. **Tax exemption for company located in R&D special zone/IP transfer/IP lease** An application for tax exemption should be filed with annual corporate income tax return. **Individual income tax exemption for foreign engineers/Korean engineers returning from abroad** An application for tax exemption should be filed with the tax office having jurisdiction over the employer (i.e., the withholding agent) by the 10th of the month following the month in which the employment commences.
Other relevant information Period of credit carryforward	Tax credit on R&D spend and tax credit on investment in R&D facility or equipment are not refundable tax credit (i.e., cannot reduce tax liabilities below zero). An unused tax credit is generally carried forward for 5 years. However, for a small enterprise, tax credit on R&D spend can be carried forward for 10 years. Also, tax credit on R&D spend in the New Growth Engine Industry or Original Source Technology Programs authorized by the government can be carried forward for 10 years, regardless of the size of the company.

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)

— Social security contribution exemption for R&D dedicated staff

— Spanish "patent box" regime

— Free depreciation for R&D activities

Each of these incentives are compatible between each other, (a combination of benefit first and second is only possible if the company qualifies as an Innovative Small Business Entity), establishing a lucrative R&D incentive regime.

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Overview of R&D incentives

Headline rate	The R&D tax credit amounts to 25% 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 2 preceding years, 25% is applied up to that average amount and 42% is applied to the excess. For Technological Innovation activities the tax credit is constant and amounts to 12% 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 & Technological Innovation activities are deductible for Corporate Income Tax (CIT) purposes (CIT rate is 25%). 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 Corporate Income Tax (CIT) purposes (general CIT rate is 25%). 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% 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% rate. R&D tax credits can be applied in the annual CIT return due 6 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%, or 50% 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 will 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 and Innovation (MICINN-in Spanish) (formerly MINCOTUR or MINECO) 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 2 years after the end of the financial year. — Claiming the refund at least 1 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 MICINN, a tax ruling or an PVA with the Spanish tax authorities, on eligibility of the activities/project. The CIT law specifies that the taxpayer will apply for only 80% of the original R&D tax credit. The refund will be limited up to EUR3 million for R&D and Technology Innovation activities and EUR1 million in case of Technological Innovation activities only. For companies with R&D costs higher than 10% of their turnover, the cap would increase from EUR3million to EUR5 million.

R&D tax relief – other relevant information	— The R&D tax credit amounts to 25% 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% is applied up to that average and 42% applies to the excess. — In addition, a 17% 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% 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% tax credit is available for Technological Innovation activities. For the calculation of the tax credits, the expenses are reduced by 100% 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% for R&D and 15% for Technological Innovation) as well as for the Canary Islands (45-75.6% for R&D and 45% for Technological Innovation, plus a 37% tax credit for research workforce and a 28% credit allowed for investments. Note that the limit of application become 60% & 90% instead of 25% & 50%).
Social Security contribution exemption for R&D staff	As of January 1, 2013, a 40% reduction on Social Security contribution for R&D staff (exclusively assigned to R&D activities) is allowed for innovative SMEs or for other companies but restricted to personal wages not included in R&D Tax credit 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 3 months a year, when he or she had to present to the social security fund a binding reasoned report of the MINECO confirming the eligibility of every R&D employee.
Reduction of earnings derived from certain intangibles assets	The Taxpayer is entitled to a 60% reduction of positive net earnings (revenues-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% 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 deductibles expenses for the licensor in case of related parties. — The licensee must not be 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 APA 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 also 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 like: pre-PhD, PhD, post-PhD, 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.

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

Headline rate	Up to double tax deduction on R&D expenses. Additional direct and indirect tax benefits to researchers
Definition of R&D	"Research and development 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), or 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	**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 3 years commencing from April 1, 2018 (i.e., until March 31, 2021). Full deduction remains available for capital and revenue nature R&D expenses after April 1, 2021.

Eligibility requirements Tax deduction	**Tax deduction (all companies)** a) 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 b) 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	**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 — 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	**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. Value Added Tax – The exemption to be declared in the return
R&D tax relief Other relevant information	N/A
Other grants and incentives	N/A

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 return (arbetsgivardeklaration). This relief came into force on January 1, 2014 and is intended to stimulate investments in activities with real R&D content. The maximum relief is SEK450,00 per month for all R&D personnel in an entire group of companies regarding R&D work begun as of April 1, 2020.

In a new bill, the Swedish Government has proposed that the rules will be changed so that the requirements for being eligible for the R&D tax reduction are lowered (only 50% of employees work time is spent on actual R&D work) and the maximum R&D tax relief is increased (to SEK 600,000 per month). The changes are proposed to be effective 1 July 2021.

There is also an expatriate tax regime under which a 25% 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 expense deductions	The employer social security contributions are reduced by additional 10% of the employee´s total gross salary paid in a month for work that is attributed to R&D. The total reduction is 20% within the capped amount as of April 1, 2020. 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 (ålderspensionsavgift), currently 10,20% (2020). The reduction will be capped at SEK 600,000 per month according to the bill proposed by the Swedish Government.

Eligibility requirements	Only remunerations paid to employees that meet the following criteria will be subject to the reduction of employer social security contributions: — In a new bill, the Swedish Government has proposed that employees will only need to be involved in systematic and qualified R&D during at least 50% of actual working hours during a month. The requirement of minimum 15 working hours has not been changed in the proposed bill. 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 return (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 will be capped at SEK 600,000 if the bill proposed by the Government will pass. The employer social security contributions are reduced with 20% of the employee´s total gross salary paid in the actual month for work begun as of 1 April 2020, which is attributed to R&D. The reduction is capped at SEK450,000 per month (equals a total salary of SEK4.5 million per month for all R&D personnel). The maximum reduction applies to an entire group of companies.
Other grants and incentives	There is an expatriate tax regime under which a 25% 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 his/her work in Sweden during 2021, the monthly remuneration must be at least SEK 95,201. As of 1 January 2021, the tax relief is valid for 5 years (previously only valid for 3 years) from the start of the employee's stay in Sweden. The period of validity remains 3 years in the following situations: — the employee's stay in Sweden began before 1 June 2020. — the employee's stay in Sweden began after 31 May 2020, the employee received a decision on tax relief which states that it is valid for 3 years and the employee has not received a specific decision extending the period of validity to 5 years. The possibility to apply for an extension was available until 31 March 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 health care system. Finally, it also provides a very competitive tax environment with ordinary effective tax rates between 12% and 21% combined with a relatively low public debt. As of 2020, Switzerland introduced new regimes to promote R&D. As a result, Switzerland is the perfect location for performing R&D activities and holding IP.

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Overview of R&D incentives

Headline rate	New tax incentives were introduced on cantonal level to promote R&D as of January 1, 2020 in order to further enhance the innovation-friendly climate in Switzerland. The measures introduced consist of patent box (according to OECD standard) and R&D super-deduction regimes. The patent box regime provides a CIT exemption on income from patents of up to 90%, whilst the R&D super-deduction provides up to an additional 50% tax deduction against qualifying R&D expenditure, depending on the canton.

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.
R&D 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% (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% of invoiced costs. The level of the additional R&D deduction varies from canton to canton but could provide up to an additional 50% 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 has to 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 relief is to be claimed at time expenses incur (not at time of a later depreciation (if expenses were capitalized). The super-deduction cannot be claimed in case of loss making and may be further restricted – together with e.g. the patent box – by the overall limitation (max. tax deduction of 70% [or lower threshold depending on canton] of taxable income before incentives).
Registration/claim process	Companies have to complete an R&D Tax Incentive Schedule attached to their annual corporate income tax return. Accurate documentation should be prepared as the proof that requirements are met is the duty of the taxpayer.
Other grants and incentives	**Patent box** As of January 1, 2020, the patent box gives an exemption from CIT of up to 90% of income from patents or similar rights, with many cantons adopting this 90% exemption rate. In order 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). 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 application of patent box may generate costs when exercised the first time (entry into the box). **Provision for future R&D** Swiss law provides for tax deductible provisions (basically reserve fund) for future R&D engagements to third parties up to 10% of taxable income or profit (maximum amount of CHF 1 million).

Taiwan

Introduction

Taiwan provides a variety of tax and non-tax incentives to encourage investment in Taiwan. The main incentives are provided under the Statute for Industrial Innovation (SII). The R&D Tax Credit provided under SII, which was originally set to expire on December 31, 2019, has been extended for another 10 years 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 New Pharmaceuticals Industry (BNPI), 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

Headline rate	Under SII, an investment tax credit up to 15% of eligible R&D expenditures is available against their current year's corporate income tax or up to 10% of eligible R&D expenditures against its corporate income tax payable over 3 years. Under DSMEs, an investment tax credit up to 15% of eligible R&D expenditures is available against their current year's corporate income tax or up to 10% of eligible R&D expenditures against its corporate income tax payable over 3 years. Under BNPI, an investment tax credit up to either 35% or 50% of eligible R&D expenditures is available for a period of 5 years from the time it is subject to corporate income tax. Under PPIP, an investment tax credit may go up to 20% of eligible R&D expenditures.
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: 1. Credit up to 15% of eligible R&D expenditures against their current year's corporate income tax. 2. Credit up to 10% of eligible R&D expenditures against their current year's corporate income tax, with any unused ITC carried forward for a period of 2 years. The amount of tax credit is limited to 30% of the current or each year's corporate income tax. — DSMEs: Eligible SMEs can choose either one of the below: 1. Credit up to 15% of eligible R&D expenditures against their current year's corporate income tax. 2. Credit up to 10 percent of eligible R&D expenditures against their current year's corporate income tax, with any unused ITC carried forward for a period of 2 years. The amount of tax credit is limited to 30% of the current or each year's corporate income tax. — BNPI: Eligible companies can credit up to either 35% or 50% of eligible R&D expenditures for a period of 5 years from the time it is subject to corporate income tax. The amount of the tax credit is limited to 50% of each year's corporate income tax. Any unused tax credit can be carried forward for a period of 4 years. The 50% tax credit limitation shall not apply to the amount to be offset in the last year of the aforementioned 4 year period. — PPIP: If the total R&D expenditure invested by an eligible private institution participating in a major infrastructure project in the same taxable year exceeds NTD1.5 million, or exceeds 2% of its net business revenue, it may credit up to 20% of eligible R&D expenditures. The amount of the tax credit is limited to 50% of the current year's corporate income tax. Any unused tax credit can be carried forward for a period of 4 years. The 50% tax credit limitation shall not apply to the amount to be offset in the last year of the aforementioned 4 years period.

Eligibility requirements Investment Tax Credit	— SII: The R&D ITC incentive is applicable for companies or limited partnerships incorporated in Taiwan (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 3 years. — 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 3 years. The SME is defined as an enterprise registered with: 1. A paid-in capital under NTD100 million; or 2. Less than 200 regular employees. — BNPI: The R&D ITC incentive is applicable for eligible "Biotech and New Pharmaceuticals Companies" that are organized and incorporated in accordance with the Company Act and engaged in the research, development and manufacture of new drugs, high-risk medical devices, and emerging biotech and pharmaceutical products. — PPIP: The R&D ITC incentive is applicable for private institutions participating in a major infrastructure project.
Expiration date Investment Tax Credit	— SII: Effective until December 31, 2029 — DSMEs: Effective until May 19, 2024 — BNPI: Effective until December 31, 2021 — PPIP: Has no stated expiration date
Registration/claim process	According to SII and DSMEs, an application for eligibility requirements and qualified R&D activities should be made with the central competent authorities within four months prior to the CIT return filing due date. To apply R&D ITC incentive for BNPI, it is necessary to get the Ministry of Economic Affairs approval as a biotech and new pharmaceutical company. To claim the R&D relief, taxpayers should submit the prescribed application form along with relevant supporting documents to the competent tax authorities.

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	Under SII, the eligible entities could alternatively elect to deduct up to 200% 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.

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

Headline rate	Depreciation at the rate of 40% 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 towards 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 corporate income tax (CIT) are eligible.
R&D tax relief Special depreciation deduction	**Special depreciation deduction (all companies)** Depreciation at the rate of 40% applied to the cost at the date of acquisition
Eligibility requirements Special depreciation deduction	**Special depreciation deduction (all companies)** 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 2 years or more. — Their cost is not less than THB100,000.
R&D tax relief Special deduction of R&D expenditure	**Special deduction of R&D expenditure (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
Eligibility requirements Special deduction of R&D expenditure	**Special deduction of R&D expenditure (all companies)** R&D expenditure spent on in-house R&D activities that are conducted in Thailand R&D expenditure paid to government or private agencies that are approved providers of R&D services that are conducted in Thailand
Registration/claim process	**R&D registration** An application to be treated as a person conducting qualifying R&D services must be submitted to the TRD. Another application for proposed R&D activities may have to be submitted to the National Science and Technology Development Agency (NSTDA) for approval.
R&D tax relief Other relevant information	TRD may from time to time update its R&D regulations depending on the Government's policy.
Other grants and incentives	N/A

Overview of R&D incentives granted by the BOI

Headline rate	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 applied 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 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.
R&D tax relief Tax incentives	**Tax incentives (available to all companies conducting R&D)** Net profit derived from promoted R&D activity may be entitled to exemption from, and reduction of, CIT for a fixed period of time. Dividends paid out of profits from a tax-exempted business during the tax-exemption period are normally exempted from CIT/withholding tax in the hands of the recipient.
Eligibility requirements Tax incentive	**Tax incentives (available to all companies conducting R&D)** Any company that has been granted an investment incentive by the BOI to conduct R&D

R&D tax relief Import duty exemption	**Import duty exemption (all companies conducting R&D)** Machinery and certain materials imported for use in R&D may be exempt from import duty.
Eligibility requirements Import duty exemption	**Import duty exemption (all companies conducting R&D)** Any company that has been granted an investment incentive by the BOI to conduct R&D
R&D tax relief Additional year(s) for CIT exemption	**Additional year(s) for CIT exemption (all BOI companies)** CIT exemption year in addition to existing CIT exemption for main BOI-promoted business
Eligibility requirements Additional year(s) for CIT exemption	**Additional year(s) for CIT exemption (all BOI companies)** 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.
Other grants and incentives	N/A

Turkey

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

Headline rate	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% R&D/Design deduction (with 50% incremental deduction)
	  — 50% Social Security Premium Support (Employers Share)
	  — 95%, 90% or 80% 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:
	  — Corporate Income Tax Exemption
	  — 50% Social Security Premium Support (Employers Share)
	  — 100% Income Tax Withholding Exemption
	  — Custom Duty Exemption
	  — Stamp Duty Exemption
	  — VAT Exemption.
	— TUBITAK provides grant opportunities for research, technology development, and innovation activities through Cash Support.

Definition of R&D	Turkey has a broad eligibility criteria for the R&D tax incentive, and there is no limit on the industries that may qualify as an eligible claimant. Definition of R&D includes the following: — **R&D activity:** Research and development 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 which include the processes meeting the social and economic needs that create new markets, which are offered to the existing markets successfully. 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 30 full-time equivalent R&D 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 and: — 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 are 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 90% for staff with PhD degrees and at a rate of 80% 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 by The Scientific and Technological Research Council of Turkey (TUBITAK) — Staff recruited in enterprises that are entitled to benefit from the capital support provided to technological enterprises — Staff recruited in precompetition cooperation projects.

R&D tax relief (continued)	Besides, the income tax calculated after applying minimum living discount over wages of R&D and backup staff stated in the 5746 Numbered Encouragement of Research and Development Law are canceled at a rate of %90 for staff with PhD degrees and at a rate of %80 for the other staff, by deducting from the tax assessed over withholding tax return until 12/31/2013. **(Income Tax Law Temporary Article 75)** **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 also one-half of the employer's share of insurance Premium, shall be funded by a budget of the Ministry of Finance 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 students; doctoral students; or had the bachelor's, master's, or doctoral degree maximum 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: 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 taking from outside.

2. To implement the R&D deduction at the R&D centers and precompetition cooperation projects, it's obligatory to give sworn in certified public accountant approval report including the necessary documents specified in the first subparagraph to the tax office related 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.

3. 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 the Scientific and Technological Research Council of Turkey (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 him or her pay an amount at 0.3% 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 institutes 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 research and development (R&D) and innovation-related activities in an effort to become 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 who 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% with the remaining 85% payable to the faculty member.

Other grants and incentives	Institutions providing cash supports on project basis: — Scientific and Technological Research Council of Turkey (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 benefitted 60% 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 U.K. R&D incentives regime continues to be enhanced and expanded, resulting in a generous set of incentive measures. The regime aims to increase U.K. productivity by encouraging scientific and technological innovation in the U.K.

There is no requirement for the R&D to be carried out within the U.K. but to benefit from the regime the expenditure must be incurred by a company within the charge to U.K. corporation tax. Claims can be made in respect of branches of U.K. companies that operate overseas and for U.K. branches of overseas companies.

As of April 1, 2020, large companies can claim a 13% taxable cash credit (previously 12% prior to April 1, 2020), irrespective of the company's tax position. The credit can be used to settle taxes owed to the revenue authority or, if certain criteria are met, can be payable in cash.

SMEs continue to benefit from the enhanced deduction regime, which has been substantially increased over recent years and now provides an additional deduction of 130% of the qualifying expenditure and a repayable credit in certain circumstances.

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Overview of R&D incentives

Headline rate	For large companies, the scheme provides a taxable 13% credit (12% prior to April 1, 2020) in respect of qualifying expenditure. For SMEs, the additional deduction is 130% of qualifying expenditure. An SME for R&D purposes (including any grouped or partner enterprises) has: — Less than 500 employees — Turnover not exceeding €100 million per annum OR gross balance sheet assets not exceeding €86 million.

Definition of R&D	The definition of R&D is contained within the Department of Business Innovation and Skills Guidelines, which are themselves derived from the OECD Frascati principles for defining R&D. Broadly, for activities to qualify as R&D, the project must be seeking an advance in science or technology through the resolution of scientific or technological uncertainty.
R&D expenditure credit and R&D tax relief	From April 1, 2020, large companies can claim a taxable credit of 13% (12% prior to April 1, 2020). The credit must be used to settle corporate or other tax liabilities due to the revenue authority before any cash amount becomes payable to the company. SMEs can deduct an additional 130% of the qualifying costs from taxable profits and may be able to claim a tax credit if the company is loss making, worth up to 33% of the original qualifying expenditure. For both the large company and SME regimes, it is only the R&D proportion of any mixed expenses that can be claimed. The main qualifying categories for relief are staff costs, payments to externally provided workers, costs of consumables used or transformed in the R&D and not sold on, and costs of software licenses where the software is used in the R&D. There are slightly different rules for large and SME companies, particularly around the use of group or third-party resource. Broadly, relief on expenditure on subcontracting R&D to other entities is generally available for SMEs, but not for large companies. For SMEs, relief for expenditure on R&D that has been subcontracted in is only available at the large company rate. As of February 2021, the UK Government is considering the inclusion of additional qualifying categories of costs relating to the use of data and cloud computing. To balance this additional investment, there may be restrictions placed on qualifying indirect activities.
Eligibility requirements	Not all the detailed rules can be covered here, but the main requirements are: — The expenditure generally must be deductible in computing the profits of a U.K. 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. **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, are not eligible for relief. — For claims under the SME regime, the expenditure should not be subsidized; there should not be state aid granted for the project; and the R&D should not have been subcontracted to the SME (however, in these circumstances there is a default claim available under the large company regime). — 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. 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 important 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.
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% 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% tax rate on profits generated from patented innovation (which is significantly lower than the main corporation tax rate of 19%). This regime is intended to operate in conjunction with the R&D regime to provide a unified and attractive environment in the U.K. 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% is unaffected. Grant funding is available in the U.K. through several different schemes. Through U.K. Research and Innovation, funding is available for innovation projects across a range of scientific and industrial themes. Local Enterprise Partnerships are another potential source of funding, particularly where job creation is involved. Other schemes to incentivize the digitization of manufacturing processes may also be available.

United States

Introduction

Research and experimentation costs (R&E) a/k/a research and development (R&D) costs have incentive treatment provisions in the U.S. tax code, that is the Internal Revenue Code. The terms R&E and R&D are seen as synonymous by most tax practitioners. The incentives for R&E are contained in section 174 and provide treatment as expenses (an option until amounts paid or incurred after December 31, 2021) or capitalization and amortization (a current option and will become required for amounts paid or incurred after December 31, 2021). 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% 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 below).

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Overview of R&D incentives

<table>
<tr><td>Headline rate</td><td>
Expensing versus Capitalization and Section 174
Current Section 174 allows R&E costs to be:
— Currently deducted under section 174(a)
— Capitalized and amortized over not less than 60 months under section 174(b)
— Otherwise capitalized under Treas. Reg. §1.174-1.
Note: The Tax Cuts and Jobs Act made changes to section 174, such that for amounts paid or incurred after December 31, 2021, R&E costs must be capitalized and amortized over 5 years (if the activities are conducted inside the US and its possessions) or over 15 years if the activities are conducted outside the U.S. or its possessions).
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% gross credit on the excess of the current year QREs over the base amount. If a timely section 280C election (discussed below) is made to claim a net RRC, the RRC is 15.8% of the excess of the current tear QREs over the base amount.
</td></tr>
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The alternative simplified credit (ASC) provides for a **14%** gross credit on the excess of the current year QREs over the base amount. If a timely section 280C election (discussed below) is made to claim a net ASC, the net ASC is **11.06%** of the excess of the current tear QREs over the base amount.

Section 280C(c)(1) requires a taxpayer to reduce its deductions in computing taxable income by the amount of any research credit determined under section 41(a). Similarly, section 280C(c)(2) requires a taxpayer to reduce amounts charged to a capital account where the taxpayer capitalizes rather than deducts expenses. An election is available, however, under section 280C(c)(3) that allows a taxpayer to avoid reducing its deductions/amounts charged to a capital account for the tax year if, instead, it reduces the credit determined under section 41(a) or section 41(c)(4) by 21%. A section 280C(3) election to claim a reduced credit can only be made on a timely filed original return (including extensions).

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 research and development costs in the experimental or laboratory sense. **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 research and development 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.

A further 3 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% 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 (AAGR) or 50% 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 qualified research expenditures and gross receipts in the base period.

— Gross receipts of a foreign corporation that are not effectively conducted with a U.S. trade or business are not counted. The taxpayer can elect to use a different calculation method—the ASC.

R&D tax relief (continued)

ASC method: The gross ASC credit is equal to 14% of the current-year QREs over a base amount.

— The base amount is equal to 50% of the average QRE for the 3 preceding tax years.

— So, the gross ASC equals 14% of (current-year QRE less 50% of the (average QRE for the 3 preceding tax years)).

— When a taxpayer has no QRE in any one of the 3 preceding tax years, the gross ASC credit is equal to 6% 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% (or 75% or 100% 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 U.S., Puerto Rico, or a U.S. 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-U.S. 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	**When and how to choose a section 174 method** Generally, you can only make the choice to deduct R&D expenditures in the first year you incur such expenditures. You choose to deduct R&D expenditures, rather than capitalizing them, by deducting them on your tax return for the year you first have R&D expenditures. If you fail to choose the method for the first taxable year in which you incur such expenditures, you cannot do so in the subsequent taxable years unless you obtain the consent of the commissioner via a request for change in method of accounting using Form 3115. There is no specific IRS form used for calculating section 174 R&E expenditures. However, IRS Schedule M-3 (e.g., for Form 1120), Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More) has an item for reporting R&D. Part III of Schedule M-3 is a Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items, and line 35 of Part III is R&D costs. **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 U.S. 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 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.

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Overview of R&D incentives – FY2020

Headline rate	A company legally established under the laws of Vietnam will be allowed to use up to 10% 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 available for all companies and industry sectors when importing machinery, equipment, and parts 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.
R&D tax relief Science and technological development fund	**Science and technological development fund (all companies and industry sectors)** Creation of a scientific research and technological development fund funded by 10% of annual taxable profit

Eligibility requirements Science and technological development fund	**Science and technological development fund (all companies and industry sectors)** A company legally established under the laws of Vietnam will be allowed to use up to 10% 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. After 5 years from the date when the fund is provided, if the fund is not entirely used up to 70%, or the fund is not used in accordance with the statutory purposes, CIT liabilities in relation to the unused fund amount, or the fund amount that is not used in accordance with the statutory purposes, 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 a change of ownership, merger or consolidation, 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.
R&D tax relief Tax exemption	**Tax exemption (companies implementing scientific research and technological development contracts in Vietnam)** CIT exemption for a period not exceeding 3 years for scientific research and technological development contracts not exceeding 5 years for products produced from new technology newly applied in Vietnam
Eligibility requirements Tax exemption	**Tax exemption (companies implementing scientific research and technological development contracts in Vietnam)** Income derived from implementation of scientific research and technological development contracts is exempt from CIT provided such companies are legally registered and licensed to carry out scientific research and technological development, and the related income is certified by the relevant state science authorities. However, the exemption period will not exceed 3 years from the effective date of such contracts. Income derived from products produced from new technology newly applied in Vietnam is exempted from CIT up to 5 years from the date of sales revenue.
R&D tax relief Tax incentives	**Tax incentives (Companies investing in R&D activities)** CIT exemption and reduction and CIT incentive rates are available for newly established companies investing in R&D activities.

Eligibility requirements Tax incentives	**Tax incentives (companies investing in R&D activities)** Newly established companies investing in scientific research and technological development activities will be entitled to: — Preferential CIT rate of 10% for 15 years from the first income-generating year — 4 years of CIT exemption commencing from the first year of taxable profits and 9 consecutive years of 50% 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 USD129 billion), disbursing at least VND1,000 billion (approximately USD43 billion) within 3 years from Investment Registration Certificate (IRC) date; or (ii) Investment projects in specifically encouraged sectors with the amount of investment capital of VND30,000 billion or more (approximately USD1,290 billion), disbursing at least VND10,000 billion (approximately USD430 billion) within 3 years from IRC date: — Preferential CIT rate of 5% up to 22.5 years from the first income-generating year — The period of the preferential CIT rate of 5% may be extended up to 15 years, subject to approval by the Prime Minister upon the Minister of Ministry of Finance's recommendation — 6 years of CIT exemption commencing from the first year of taxable profits and 13 consecutive years of 50% CIT reduction. Where a company does not make taxable profits after 3 years from the first income-generating year, the CIT incentive period will automatically start in the fourth year.
R&D tax relief Tax deduction	**Tax deduction (all companies and industry sectors)** Qualified R&D expenses are deductible from taxable income for CIT purposes.
Eligibility requirements Tax deduction	**Tax deduction (all companies and industry sectors)** Qualified R&D expenses (including market research expenses, expenses incurred for development and support of market surveys, service fees paid to consultants carrying out research, development and support provided to market survey activities, expenses incurred for display and introduction of goods, and trade fairs or exhibitions) are fully deductible from taxable income for CIT purposes. Eligible R&D expenditure must arise from R&D activities conducted in Vietnam and must be substantiated by proper invoices and supporting documents.
R&D tax relief Exemption of VAT and import duties	**Exemption of VAT and import duties (all companies and industry sectors)** Exemption from VAT and import duties available for all companies and industry sectors when importing machinery, equipment and parts directly used for scientific research and technological development.

Eligibility requirements Exemption of VAT and import duties	**Exemption of VAT and import duties (all companies and industry sectors)** Machinery, equipment, and parts 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, parts, materials, and means of transportation 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 a change of ownership, merger, or consolidation, 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.
R&D tax relief Other relevant information	N/A
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 research and development centers with a total investment capital of at least VND3,000 billion (approximately USD129 million) and disbursing at least VND1,000 billion (approximately USD43 million) within 3 years from the issuance date of the investment registration certificate or the approval for investment guidelines will be entitled to following special incentives: a) Assistance in development of technical infrastructure and social infrastructure inside and outside the perimeter of the investment project b) Assistance in training and development of human resources c) Credit assistance d) Assistance in access to business premises; assistance in relocation of business establishments under decisions of regulatory agencies e) Assistance in science, technology, and technology transfer f) Assistance in market development, and information provision g) Assistance in research and development. *Note: exchange rate USD/VND=23,300*

Appendix

European Union Research and Development Funding

Introduction

The European Union (EU) provides grant funding for research and innovation through its flagship programs Horizon 2020 and Horizon Europe, and other additional funding opportunities. EU funding usually takes the form of grants that part-finance a project with additional match contributions from the private or public sector.

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Overview of grants and incentives

Horizon 2020 and Horizon Europe

Horizon 2020 is the EU's largest Research and Innovation program with nearly €80 billion of funding being made available over 7 years (2014 to 2020). It is boosted by additional match private investment.

As Horizon 2020 draws to completion in 2020, Horizon Europe will take its place as the next flagship EU research and innovation investment funding program commencing in 2021. Horizon Europe aims to tackle climate change, achieve sustainable development goals, and boost the EU's competitiveness and growth with a proposed budget of €100 billion.

Both programs seek breakthroughs across many research areas and aims to take discoveries from the laboratory to the market, placing an emphasis on excellent science, industrial leadership, and tackling societal challenges.

Key themes for support include:

Pillar 1 – Excellence Science	Pillar 2 – Global Challenges and European Industrial Competitiveness	Pillar 3 – Innovative Europe
— Frontier research — Equipping researchers with new knowledge and skills — Integrated and inter connected world-class research infrastructure	— Digital industry and space — Civil security for society — Health — Food, bioeconomy, natural resources, agriculture, and environment — Culture, creative, and inclusive societies — Climate, energy, and mobility	— Support innovation and breakthroughs — Connecting regional and national innovation activities — Bringing together research, education, and business

Eligibility requirements	Horizon 2020 (and Horizon Europe) funding opportunities are open to all EU member states. Several different types of organization can apply to run a research project, such as industry, charities, partnerships, or research organizations. Of note is that most of the funding will only be granted to groups of organizations that form a consortium. Consortiums can apply for funding for projects that establish or explore the feasibility of new knowledge or technology and can get funding for up to 100% of a project's direct costs. The funding can also be secured for projects that are close to market and undergoing prototyping, testing, and other premarket activities.
Application process	Funding for eligible projects is through a series of "funding calls," which will be announced via the program portal. This will set out the opening date for the release of funding call information, including eligibility criteria, level of funding available, and the closing date for submission of applications. The application process typically consists of the following stages: 1. Identify a live funding call, which is seeking project applications to be submitted 2. Find and confirm project partners to form a consortium, with a consortium lead agreed 3. Register on the European Commission Participant Portal 4. Prepare proposal for the funding call 5. Submit proposal via by the stated deadline. Once a consortium has submitted its proposal for a funding call, the European Commission will check on eligibility and then a panel of independent experts will assess the proposal prior to deciding on whether to award funding. On average, it takes 8 months from a proposal submission to formal grant agreement sign-off.
Additional EU funding opportunities	**Innovation Fund.** This is one of the world's largest funding programs for the demonstration of innovative low-carbon technologies. The scheme will focus on highly innovative technologies and large flagship projects with European input, which can deliver significant emission reductions. It is a key funding instrument for delivering the EU's sustainability commitments and could fund up to 60% of the additional capital and operational costs linked to innovation. There is a two-stage application process whereby projects will be selected based on their effectiveness, novelty, maturity, scalability, and cost efficiency. **European Defence and Industrial Development Programme (EDIDP).** EDIDP aims at supporting the efforts of the EU defense industry in the development of defense equipment and technologies through co financing from the EU budget. EDIDP has a budget of €500 million in total for 2019 and 2020. EDIDP is part of the European Defence Fund, launched by the Commission in June 2017, to help Member States spend money more efficiently, reduce duplications, and get better value for money by coordinating, supplementing, and amplifying national investments in defense research and development activities.

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