

# Overview of R&D Tax Incentives

**Tax Policy Central Europe Conference**

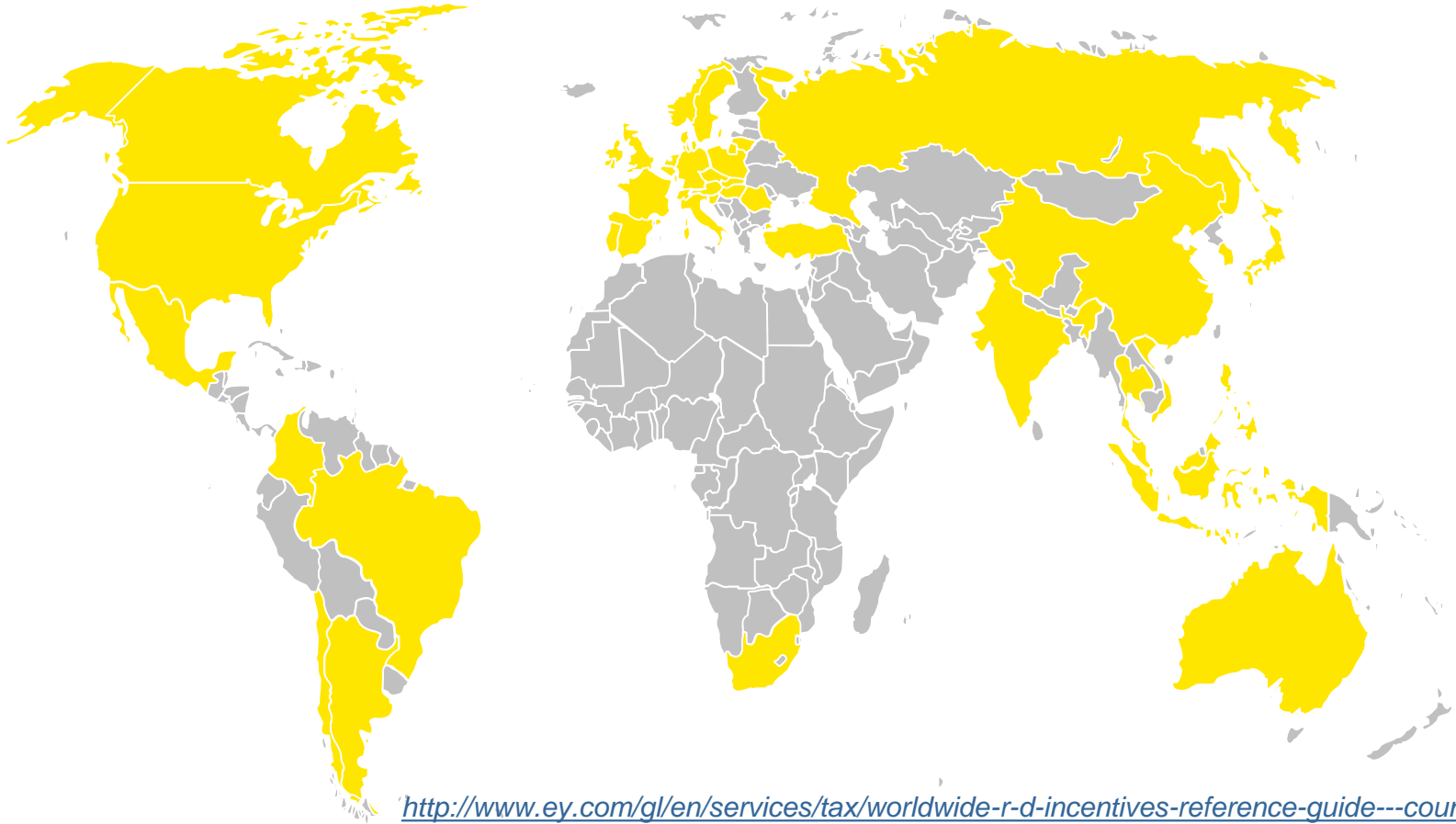
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# Worldwide R&D Incentives Reference Guide

## EY 2017

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Out of 43 countries only 1 does not provide R&D tax incentives: **Germany**

# Worldwide R&D Incentives Reference Guide

## EY 2017

Country	Accelerated depreciation on R&D assets	Cash grants	Expedited government approval process	Financial support	Income tax withholding incentives	Infrastructure/land preferential price	Loans	Patent-related incentives
Argentina	✓	✓						
Australia								
Austria		✓					✓	
Belgium	✓	✓			✓		✓	✓
Brazil	✓			✓			✓	✓
Canada	✓	✓		✓			✓	
Chile	✓	✓						
China								
Colombia			✓	✓				
Czech Republic		✓						
Denmark								
France	✓	✓					✓	✓
Germany		✓					✓	
Hungary		✓						✓
India	✓	✓		✓			✓	✓
Indonesia	✓							
Ireland	✓	✓		✓				✓
Israel		✓		✓	✓			✓
Italy								✓
Japan								
Lithuania	✓							
Luxembourg	✓	✓					✓	✓
Malaysia		✓		✓				
Mexico		✓						
Netherlands	✓	✓			✓		✓	✓
Norway		✓		✓			✓	
Philippines								
Poland		✓						
Portugal		✓					✓	
Romania	✓							✓
Russia	✓							
Singapore		✓						
Slovak Republic						✓		
Slovenia		✓		✓			✓	
South Africa	✓	✓						
South Korea								
Spain	✓	✓					✓	✓
Sweden								
Switzerland	✓			✓			✓	
Thailand	✓						✓	
Turkey		✓			✓			✓
UK	✓	✓					✓	✓
US								
Vietnam				✓		✓		

Reduced social security contributions	Reduced tax rates/preferable tax rates	TAX INCENTIVE				Tax holiday	VAT reimbursement	Other
		Tax allowance	Tax credits	Tax deduction (including super deduction)	Tax exemptions			
✓	✓		✓		✓		✓	
			✓					
	✓		✓				✓	Notional interest deduction
			✓	✓				
	✓		✓					
			✓	✓			✓	Tax discount
		✓	✓		✓	✓		
✓	✓	✓	✓			✓		
✓	✓	✓	✓	✓				R&D tax credit on R&D buildings
			✓		✓			
		✓	✓		✓	✓		
	✓		✓		✓			
			✓	✓		✓		
			✓	✓		✓		
			✓	✓		✓		
			✓	✓		✓		
			✓	✓		✓		
			✓	✓		✓		
			✓	✓		✓		
✓	✓		✓	✓		✓		Reduced tax rates for license income
			✓	✓		✓		
	✓		✓	✓		✓		
	✓		✓	✓		✓		
			✓	✓		✓		Free training

# Tax incentives: Overview of key measures (1)

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## A. Accelerated depreciation (*temporary*)

- ▶ Accelerated depreciation for equipment and tools used for R&D
- ▶ A first year increased R&D capital allowance

## B. Tax “super” deduction (*permanent*)

- ▶ R&D expenditures deductible at 100+ % (from tax base)

## C. Tax credits (*permanent*)

- ▶ X% of qualifying R&D expenditures (deductible from tax)

## D. R&D reserves (*temporary*)

- ▶ Tax deductible „innovation fund“ reserves

# Tax incentives: Overview of key measures (2)

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## E. Tax exemptions (*permanent*)

- ▶ Mostly for income derived from qualifying IP
- ▶ In a combination with special IP box regimes

## F. Tax holiday (*permanent*)

## G. Reduced wage tax / social security contributions

- ▶ Lower wage tax relating to R&D and/or specific “professional” personnel
- ▶ Reduction in social security contributions for R&D employees

+ Number of other **non-tax incentives** (cash grants, loans, infrastructure / land preferential price, financial support, ...)

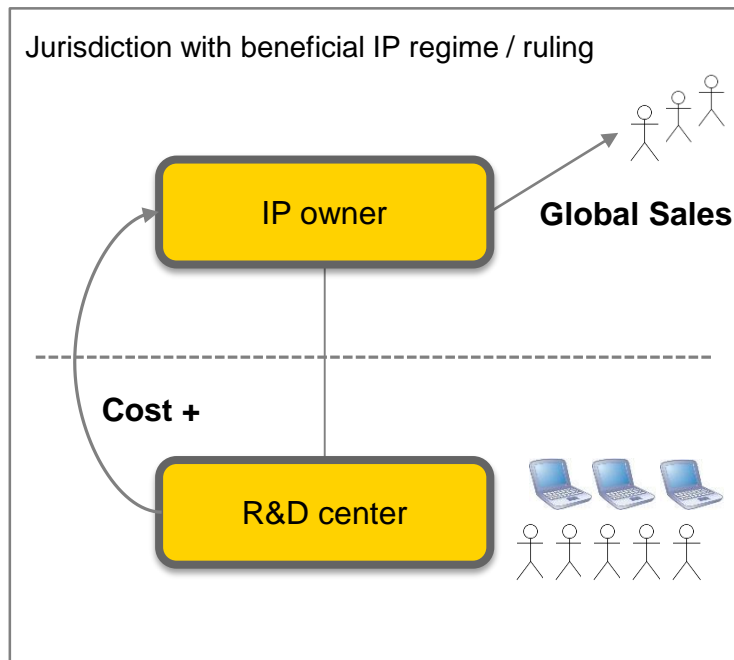
# Czech Republic

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- ▶ R&D tax super deduction
  - ▶ 100% + 100% or even 110% (for year-to-year increase)
  - ▶ Wages, depreciation, costs of material
  
- ▶ Investment incentives for R&D centers
  - ▶ Tax holiday (10 years)
  - ▶ Cash grants (limited)
  - ▶ Land preferential price
  
- ▶ EU cash grants for selected R&D activities

# Current challenges and new trends (1)

## Pre-BEPS „common“ tax structure:



- High revenues (tax base)

- **Low tax** (due to preferential regime)

*[ Volume of activities? ]*

- **Low tax** base (sometimes even lower due to R&D tax incentives)

*[ High volume of activities and substance ]*

# Current challenges and new trends (2)

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## Challenges?

- ▶ OECD: BEPS (**B**ase **E**rosion and **P**rofit **S**hifting)
  - ▶ BEPS Action 5
  - ▶ Substance requirements for IP / other regimes (nexus approach)
  - ▶ Nexus ratio: 
$$\frac{\text{R\&D expenditures incurred by the taxpayer (A) + unrelated party (B)}}{\text{A + B + acquisition costs of IP + expenditures for related-party outsourcing}}$$
- ▶ **Location = Taxation**
- ▶ Belgium, Cyprus, Dutch, Germany, Hungary, Ireland, Israel, Italy
- ▶ EU: State Aid
  - ▶ Individual tax rulings (Luxembourg, Netherlands, ...)



# What next?

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- ▶ R&D tax incentives
  - ▶ Incentive or *necessity*?
  - ▶ Although currently EU cash grants are prevailing
- ▶ R&D related social security saving?
  - ▶ Attraction of experts and researchers
  - ▶ Suitable for the (high-SSHI) Czech Republic
  - ▶ Various modifications (e.g. offset against other tax liabilities)

+ OECD (BEPS) and EU rules compliance

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#### Key sources:

<http://www.ey.com/gl/en/services/tax/worldwide-r-d-incentives-reference-guide---country-list>

[http://www.oecd-ilibrary.org/taxation/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report\\_9789264241190-en](http://www.oecd-ilibrary.org/taxation/countering-harmful-tax-practices-more-effectively-taking-into-account-transparency-and-substance-action-5-2015-final-report_9789264241190-en)

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