Overview of Research & Development Tax Incentives in Selected Global Knowledge Economies

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Scitax
Scitax Advisory Partners LP
R&D Tax Credit Specialists

77 King Street West, Suite 2401
Toronto, Ontario, CANADA M5K 1G8
(416) 350-1214 www.Scitax.com

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Country **Name of Incentive** **Administering Government Agency**	**Benefit Type** * see End Notes for definitions* **Actual or Incremental Expenditure Base?**	**Benefit Rates in %**	**Limits & Restrictions**	**Eligible Expenditures** **Geographic Constraints**	**Year Initiated** **Current Status** **Pending Changes (known)**
Australia Research and Development Tax Credit Jointly administered by: - AusIndustry www.ausindustry.gov.au - Tax Office www.ato.gov.au/randd	Super-Deduction and / or Refund Investment Tax Credit Actual	2009/10 Less than $20 million turnover - 125% deduction, 37.5% rebate (up to $5 million) More than $20 million turnover - 125% deduction, 37.5% non-refundable tax credit (ITC) 2010/11 Less than $20 million turnover - 150% deduction, 45% rebate More than $20 million turnover - 133% deduction, 40% non-refundable tax credit (ITC)	$2 million limit (2009-2010) $20000 threshold unless contracted to a registered research agency	1) Contracted expenditures 2) Salaries 3) Plant leasing 4) Feedstock expenditure 5) Activities directly related to R&D (support) Up to 10% of total R&D claimed can be done outside of Australia.	1985 Permanent, subject to amendment New legislation will take affect July 1, 2010. In April 20, this legislation was amended to substantially relax the technical eligibility criteria as compared to what had been proposed in earlier drafts. – esp. regarding software development.

Austria Research and Development Allowance Federal Ministry of Economics and Labour www.bmwa.gv.at/EN	Super-Deduction or Refund Actual	125% or 8% refund for loss-making companies	€ 100,000 limit for subcontracts	1) Raw material 2) Personnel costs 3) Supplies 4) Premises 5) Commercial property 6) R&D equipment 7) Subcontracts to research institutions made only by SMEs that do not carry out research themselves R&D done within the European Union is eligible.	1988 Permanent
Canada SR&ED Canada Revenue Agency www.cra.gc.ca	Cash Refund and/or Investment Tax Credit (ITC) Actual	In Canada taxes are paid at both federal and provincial (i.e. state) level. Tax incentives for R&D are offered at the federal level and by most provinces . The federal level benefit for Canadian-Controlled Private Corporation (CCPC) benefit is: - 35% as cash refund for the first $3M of expenditures and 20% as cash refund for expenditures exceeding $3M - only 40% of capital expenditures attract cash refund benefit, balance as ITC For partnerships, individuals and sole proprietorships, the federal level benefit is: - 20% on both current and capital expenditures, only 40% of which is refundable - balance as ITC For other Canadian corporations (e.g, public corporations) the federal level benefit is: - 20% as ITC (no cash refund) on current and capital expenditures In addition to the above, most provinces (all except Prince Edward Island, NW Territories and Nunavut) offer their own tax incentives that generally act in addition to the federal. These range from 10% in Ontario, B.C. & Alberta; 15% in New Brunswick, Newfoundland, Nova Scotia, Saskatchewan & Yukon; 20% in Manitoba; and 37.5% in Quebec. All of these except for Saskatchewan and Manitoba are refundable. Eligibility for the provincial benefits is automatically triggered by federal level eligibility.	For CCPCs, the benefit rate and cash refund portion become reduced if: Expenditures exceed $3M. & / or Taxable income exceeds $500K & / or Taxable capital exceeds $10M	1) wages 2) materials 3) machinery 4) equipment 5) some overhead 6) third party payments 7) SR&ED contracts for experimental development, applied research, basic research and support work. Up to 10% of individuals' total wages are eligible for work done outside Canada.	1986 Permanent

China R&D Super-Deduction State Administration of Taxation www.chinatax.gov.cn	Super-Deduction Actual	150% (provided that R&D spending increased 10% over the prior year)		1) Design fees for new products, expenses for formulating procedures relating to new skills, and expenditures for technical books and information and translation fees directly related to R&D activities. 2) Materials, fuel and power consumed directly for R&D activities 3) Salaries, wages, bonuses and allowances of employees directly engaged in R&D activities 4) Depreciation expenses or rentals for apparatus and equipment exclusively used for R&D activities 5) Amortization expenses of intangible assets such as software, patent rights, non-patented technologies exclusively used for R&D activities 6) Development and manufacturing costs of equipment and moulds exclusively used for intermediate testing and experiments 7) On-site testing expenditures for exploration technology 8) Expenditures for verification, assessment and recognition of R&D results R&D done in China is eligible	Although this incentive has been ongoing, it was first clearly defined in 2008 by Guoshuifa [2008] Circular No.116 which is retroactive to 1 January 2008 Trial implementation
France Research Tax Credit (CIR) Invest in France Agency www.invest-in-france.org	Investment Tax Credit and/or Cash Refund after 3 years if no tax is owed* Actual *From January 2 2009 unused 2005-7 tax credits immediately refundable as well as any unused credit for 2008	30% for expenditure that is lower than or equal to €100M The 30% rate rises to 50% and 40% for the 1st and 2nd years respectively, for companies applying for the research tax credit for the first time, or companies that have not benefited from research tax credit within the last five years. 5% for expenditure above €100M High growth SMEs and innovative young companies qualify for immediate reimbursement of R&D tax credit 50% credit for companies applying for the credit for the first time 60% flat credit on all R&D expenditures made in partnership with a federal laboratory Credit limited to manufacturing, trading and agricultural companies	Contracted research limit of €10 million per company (€2 million for associated companies)	1) Staff costs (gross wages and social security contributions) for researchers and research technicians working directly and <u>exclusively</u> on research - 75% of eligible staff costs - 200% of salaries paid to recent doctoral graduates over the first 24 months 2) Expense for the acquisition and maintenance of Plant Variety Rights 3) Depreciation of plant and equipment used directly for research operations 4) Patent filing and maintenance costs 5) Bonuses and payments related to patent insurance contracts (capped at €60,000 per year) 6) Amortization of patents acquired for research purposes 7) 50% of standardization costs 8) Spending on patent defense and technology watch R&D done within the European Union is eligible.	1983 Permanent

Germany	Germany does not currently have a tax incentive for R&D. There are a variety of programs that offer numerous financial tools to support R&D activities: R&D grants, R&D loans with reduced interest rates, special partnership programs, or public guarantees. Funding is generally decided by means of competition among project ideas. The promoted industries as well as the specific grant rates are set by the states individually.				
India Department of Scientific and Industrial Research http://www.dsir.gov.in/	Super-Deduction Actual	150%		1) Activities done in a specified area/building (recognized by the DSIR) by persons exclusively dedicated to R&D 2) Only R&D done in specified fields is eligible R&D done in India is eligible	1997 Expires March 31, 2012
Ireland, Republic of Research and Development Tax Credit Industrial Development Agency www.idaireland.com	Investment Tax Credit and/or cash refund in 3 yearly instalments (provisions include restrictions to amounts payable) Incremental using rolling base Actual for buildings	Accounting periods commencing on or after 1 January 2009: 25% of expenditures exceeding those of the base year (2003) Accounting periods commencing before 1 January 2009: 20% of expenditures exceeding those of the base year (2003) 25% credit for buildings are not incremental and may be claimed in the accounting period in which the relevant expenditure is incurred (at least 35 percent of the building is used for these activities over a four year period). Tax credit can be carried back one year and carried forward indefinitely The R&D credit is in addition to the corporate tax deduction of 12.5% available for qualifying expenditure giving an effective tax deduction for such expenditure of 37.5%.		1) 5 -10% of subcontractor payments are eligible 2) Eligible categories are: natural sciences, engineering and technology, medical sciences, agricultural sciences. 3) R&D activities are detailed as being; 'systematic, investigative or experimental activities in the field of science or technology being basic research, applied research or experimental development'. 3) Engineering, design, operational research, mathematical analysis, computer programming, data collection, testing, or psychological research 4) Indirect supporting activities 5) Ancillary activities essential to the undertaking of research and development activities such as taking on and paying staff, leasing laboratories and maintaining research and development equipment including computers used for research and development activities; 6) The cost of plant with at least 35% used for R&D activity for a 4 year period and machinery. 7) Royalty payments subject to exclusions R&D done within the European Economic Area is eligible.	2004 Permanent

Ireland, Republic of Research and Development Tax Credit Industrial Development Agency www.idaireland.com	Investment Tax Credit and/or cash refund in 3 yearly instalments (provisions include restrictions to amounts payable) Incremental using rolling base Actual for buildings	Accounting periods commencing on or after 1 January 2009: 25% of expenditures exceeding those of the base year (2003) Accounting periods commencing before 1 January 2009: 20% of expenditures exceeding those of the base year (2003) 25% credit for buildings are not incremental and may be claimed in the accounting period in which the relevant expenditure is incurred (at least 35 percent of the building is used for these activities over a four year period). Tax credit can be carried back one year and carried forward indefinitely The R&D credit is in addition to the corporate tax deduction of 12.5% available for qualifying expenditure giving an effective tax deduction for such expenditure of 37.5%.		1) 5 -10% of subcontractor payments are eligible 2) Eligible categories are: natural sciences, engineering and technology, medical sciences, agricultural sciences. 3) R&D activities are detailed as being; 'systematic, investigative or experimental activities in the field of science or technology being basic research, applied research or experimental development'. 3) Engineering, design, operational research, mathematical analysis, computer programming, data collection, testing, or psychological research 4) Indirect supporting activities 5) Ancillary activities essential to the undertaking of research and development activities such as taking on and paying staff, leasing laboratories and maintaining research and development equipment including computers used for research and development activities; 6) The cost of plant with at least 35% used for R&D activity for a 4 year period and machinery. 7) Royalty payments subject to exclusions R&D done within the European Economic Area is eligible.	2004 Permanent
Mexico Programa Estímulos Fiscales de IDT National Council of Science and Technology www.conacyt.gob.mx	Cash Refund and/or Investment Tax credit Actual	30%		1) Salaries 2) Subcontractors in Mexico 3) Laboratory equipment/instruments 4) pilot plants 5) Infrastructure 6) Use of alternative energy 7) Overhead 8) Patents, copyrights, and intellectual property 9) Training/courses 10) Benchmarking R&D done within Mexico is eligible.	1997 Permanent

Netherlands WBSO (Promotion of Research and Development Act) SenterNovem www.senternovem.nl/english/index.asp	Cash Refund and/or Investment Tax Credit Actual	Self-employed Flat rate of € 11,608 and an additions € 5,805 for start-ups Start-up businesses and knowledge institutes 60% for the first € 110,000 14% for expenditures in excess of € 110,000 Other Companies 42% for the first € 110,000 14% for expenditures in excess of € 110,000	€ 7.9 million for businesses and 500 hours of R&D for self employed people	1) reduced remittances of statutory payroll tax and social security contributions 2) salaries based on a average hourly rate from 2005 or 29 €/hour 3) January 2009 – The scope of eligible R&D is broadened to include information and communications-related services. R&D done within Netherlands is eligible.	1994 evaluation required every 5 years
New Zealand Research and Development Tax Credit Inland Revenue www.ird.govt.nz/rd-tax-credit	Cash Refund and/or Investment Tax Credit Actual	15% Investment tax credit If it is a loss making company, 15% of the expenditures will be paid in cash	$2 million limit for in-house use software development $20,000 prorated threshold unless using a listed research provider	1) Employee remuneration 2) Depreciation of tangible assets used primarily in conducting R&D 3) Overhead costs 4) Consumables 5) Payments to entities conducting R&D on behalf of the business R&D conducted predominantly in New Zealand is eligible.	2008 permanent/enacted
South Africa R&D Tax Deduction South African Revenue Services (Sars)	Super-Deduction Actual	150% Super deduction Accelerated deduction for capital equipment Year 1: 50% Year 2: 30% Year 3: 20%		1) The grounds for qualification are: a) discovery of novel, practical and non-obvious information, b) devising, developing or creating qualified invention, design, computer program or knowledge essential to the use of such invention, design or computer program. 2) Subcontractor payments are eligible R&D done within South Africa is eligible.	2006 Enacted

Spain	Investment Tax credit
	
	Actual plus Incremental
		R&D projects:
		- 25% of R&D expenditure
		  - Additional 42% of the increase in R&D expenditure in the previous 2 years
		  - Additional 17% of qualified researchers devoted exclusively to R&D
		- 8% of R&D related investments
		
		Technological Innovation projects:
		- 8% of Innovation related investments, which includes industrial design and engineering in production processes, purchase of advanced technologies (patents, licenses and design) and certifications (ISO 9000, etc.)
			Gross Tax Charge (GTC) must be positive to apply this deduction
			
			The credit limit is 35% of positive GTC, or 50% of the positive GTC when the R&D&I and ICT deduction exceeds the GTC. The remainder may be claimed over the next 15 years.
				The fiscal deduction for R&D and Technological Innovation projects apply to:
				1) staff costs
				2) acquisition of technology (including depreciation of some purchased assets for R&D)
				3) Consumable material
				4) External collaboration
				5) Other costs associated to the project (such as indirect costs, travel, etc)
					1995: Initiated
					
					2006: Reform for the elimination of R&D tax system in 2012. Rates are reduced progressively in 2007 and 2008. From 2008, the rates shown apply.
					
					2009: Elimination plan is withdrawn. The incentive will continue after 2012 with reduced coefficient.

United Kingdom Research and Development Tax Credit HM Revenue & Customs www.hmrc.gov.uk	Super-Deduction, Refundable Cash Benefit for SMEs Actual	175% for SMEs (under 500 employees with annual turnover of less than €100m) 130% for large companies Loss-making SMEs can, in certain circumstances, surrender the relief for a cash payment worth up to 24% of qualifying R&D expenditure.		1) employing staff directly and actively engaged in carrying out R&D 2) paying a staff provider for staff provided to the company who are directly and actively engaged in carrying out R&D 3) consumable or transformable materials used directly in carrying out R&D (broadly, physical materials which are consumed in the R&D), and power, water, fuel and computer software used directly in carrying out R&D. 4) There are special rules regarding expenditure on sub-contracted R&D which differ between the SME and large company schemes. 5) In some cases projects which benefit from a subsidy or a grant may have the amount of qualifying expenditure reduced. R&D conducted anywhere in the world is eligible.	Small and medium sized companies 2000 large companies 2002 Permanent

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United States Research Credit Internal Revenue Service United States Department of the Treasury www.irs.gov	Investment Tax Credit Incremental	Credit equals the sum of: 1. 20% of expenditures exceeding the base amount (product of fixed-based percentage and the average annual gross receipts for the preceding 4 years) equal to a minimum of 50% of research expenditures – or – alternative incremental credit – or – alternative simplified credit: 12% of qualified research (14% for tax years ending after Dec 31, 2008), less 50 percent of the average research for the three preceding taxable years 2. 20% credit for up to 50% of eligible basic research payments to qualified organizations (similar to Ontario's OBRI credit) 3. 20% of expenditures on qualified energy research undertaken by an energy research consortium Special rule for "start up" companies	Subject to restrictions on the general business credit	1) wages 2) supplies consumed in qualified research (does not include land or depreciable property) 3) supervision and support 4) rights for the use of computers in the conduct of qualified research 5) 65% of contract research expenditures 6) 75% of research contracted to a qualified research consortium for qualified research 7) does not include process R&D R&D done within the United States, the Commonwealth of Puerto Rico or any possession of the United States is eligible. Basic research must be done in the United States.	1981 Non-permanent. Must be renewed each year by act of congress and has had several lapses. *** UNAVAILABLE *** Was not renewed by US Congress and therefore as of 1-Jan-2010 is suspended and unavailable. Oct 2008 legislation retroactively approved credit for amounts paid or incurred in 2008 through Dec 31, 2009.

END NOTES

*key to Benefit Types

1) Normal business deduction – Expenditures on R&D act to reduce taxable income exactly like any other expense
2) Super-deduction – R&D expenditure produces a deduction that is greater than actual by some factor (e.g. 150% of actual)
3) Immediate or accelerated write-off – Faster depreciation of capital assets such as R&D equipment or purchased IP (e.g. 100% write-off in one year vs. 33.3% per year over three years)
4) Investment tax credit (ITC) – Direct reduction of taxes payable by all or some % of the R&D expenditure. (e.g. net tax payable at year-end is reduced after normal expense deductions are applied)
5) Refundable cash benefit – Benefit paid in cash, even if no taxable income or tax payable at year-end.
6) Expenditure Base <u>Actual</u> - benefit is applied to the expenditures as were incurred in a given tax year
7) Expenditure Base <u>Incremental</u> - benefit is applied to the change in expenditures in a given tax year as compared to prior year(s).

- END –