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

Ver. 3-Aug-11

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

Notice: Reader is cautioned against direct comparison between benefit rate % figures quoted in this report without first considering the Benefit Type; to do so would be akin to comparing numeric scores in two different sports such as hockey and basketball. For example a 35% investment tax credit could be worth substantially more than a 200% super-deduction. See end notes of this report for further details.

The information contained herein is intended to illustrate available tax credit opportunities as a starting point for further study, not as tax planning advice. Some aspects of this complex topic have been deliberately simplified in the interest of conceptual clarity. While every reasonable attempt has been made to present information that is correct and current at the date of publication, we make no guarantee that it will continue to be accurate in future. All matters of taxation are determined by government legislation and administrative interpretation of that legislation by tax authorities – both of which are subject to change. While we will update this report from time-to-time, we cannot guarantee that this or any version is current as you read it. No one should act upon this information without first obtaining appropriate qualified professional advice specific to the facts and circumstances of their particular situation.

Country **Name of Incentive** **Administering Government Agency**	**Benefit Type** *see End Notes for definitions **Actual or Incremental Expenditure Base?**	**Benefit Rates in %**	**Limits** **&** **Restrictions**	**Eligibility** **&** **Geographic Constraints**	**Year Initiated** **Current Status** **Pending Changes (known)**
Australia Research and Development Tax Credit http://www.ausindustry.gov.au/INNOVATIONANDRANDD/Pages/home.aspx Jointly administered by: - AusIndustry www.ausindustry.gov.au - Tax Office www.ato.gov.au/randd	Cash Refund and /or Investment Tax Credit on Actual expenditures	New benefit rates implemented July 1, 2011 – former "super deduction" replaced with ITC system with refundable cash benefits for small companies. After July 1, 2011: - 45% per cent refundable tax credit for companies (and groups of companies) with annual total income of less than $20 million (AUD) - 40% non-refundable investment tax credit for all other companies. Activities carried out in an income year commencing prior to July 1, 2011, must be registered with the older Tax Concession scheme.	Expenditure limit cap of $1M (AUD)	Definition of eligible R&D activity is narrowed and more restrictive – particularly with respect to software / IT work. New "primary purpose" criteria introduced. Taxpayer must now justify that "Supporting Activities" are vital to "Core Activity": Up to 10% of total R&D claimed can be done outside of Australia. 1) Contracted expenditures 2) Salaries 3) Plant leasing 4) Feedstock expenditure 5) Activities directly related to R&D (support) Overseas R&D is eligible if there is a demonstrably significant scientific link to Australian core activities AND is R&D that cannot be carried out in Australia due to: quarantine; a lack of suitable facilities, expertise or equipment; etc. Any overseas R&D costs claimed must be less than the costs of claimed R&D carried out in Australia.	Permanent New legislation enacted 24-Nov-2010 implements the 45% refundable benefit for small businesses (<$20M) but with significantly tougher scientific eligibility criteria. These benefits were delayed for one year after failing in Senate in June, 2010. On January 1, 2014, SMEs can apply for quarterly payments of R&D Credit entitlements.

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 companies with no taxable income.	€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 http://www.cra-arc.gc.ca/txcrdt/sred-rsde/menu-eng.html	Cash Refund and/or Investment Tax Credit 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 (CAD) 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 (CAD). & / or Taxable income exceeds $500K & / or Taxable capital exceeds $10M	1) Wages / salaries 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 the total amount claimed for wages / salaries can for work done outside Canada providing that work is a: A) Done by a person who is a Canadian resident. B) Directly related and vital to an R&D project that is based and centred in 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 2) Salaries, wages, bonuses and allowances of employees directly engaged in R&D activities 3) Depreciation expenses or rentals for apparatus and equipment exclusively used for R&D activities 4) Amortization expenses of intangible assets such as software, patent rights, non-patented technologies exclusively used for R&D activities 5) Development and manufacturing costs of equipment and moulds exclusively used for intermediate testing and experiments 6) On-site testing expenditures for exploration technology 7) Expenditures for verification, assessment and recognition of R&D results Only 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) Ministère de l'Enseignement Supérieur et de la Recherche: http://www.enseignementsup-recherche.gouv.fr/ 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	Advance accreditation (“rescrit fiscal”) is available. 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 exclusively on research a. 75% of eligible staff costs b. 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 defence and technology watch R&D done anywhere 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 and industry sub-sectors 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	25% of expenditures exceeding those of the base year (2003) for accounting periods commencing on or after 1 January 2009, or 20% for accounting periods commencing before 1 January 2009. A non-incremental, 25% credit is allowed for buildings where at least 35% of the facility is used for R&D for a period of at least 4 years, and it may be claimed in the accounting period in which the relevant expenditure is incurred. R&D tax credits 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, providing an effective tax deduction of 37.5% for activities in or after 2009.		1) R&D activities are described as ‘systematic, investigative or experimental activities in the field of science or technology being basic research, applied research or experimental development’. 2) Eligible categories: natural sciences, engineering and technology, medical sciences, agricultural sciences. 3) Eligible activities: ancillary activities essential to the undertaking of research and development activities such as hiring and paying staff, leasing laboratories and maintaining research and development equipment including computers used for research and development activities. 4) 5% of subcontractor payments to European (including Irish) universities and 10% of subcontractor payments to unconnected parties can be claimed. 5) The cost of a plant and machinery is eligible if at least 35% is used for R&D activities for a minimum 4-year period. 6) Ineligible categories: basic engineering, design, operational research, mathematical analysis, computer programming, data collection, testing, psychological research, or indirect supporting activities. 7) Royalty payments are 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

Scitax
Scitax Advisory Partners LP
R&D Tax Credit Specialists

New Zealand Research and Development Tax Credit Inland Revenue www.ird.govt.nz/rd-tax-credit	Investment Tax Credit and/or Cash Refund Actual	Prior to 2010 15% Investment tax credit. For companies without sufficient taxable income to absorb the entire amount of the credit, the remainder of the benefit is payable in cash.	No benefit on first \$20,000 (NZD) of expenditures unless using an approved research provider. \$2M (NZD) limit for in-house use software development \$20,000 prorated threshold	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 Cancelled / Withdrawn in 2010 permanent/enacted
	Pre-approved Cash Grant & Vouchers	2010 to 2014 Large Companies: Income exceeding \$3 million for the past three fiscal years Up 20% of R&D expenditures to a maximum of \$2.4 million. Small Companies Technology transfer "vouchers" worth \$100,000 to \$200,000 that can only be spent at public research institutions (e.g. universities) available	Company must have history of R&D (tax credit history?) Company income must exceed \$3M Applications must be pre-approved by government.	Commercially focused R&D and science. Must demonstrate that the funded activity will result in direct overall benefit to New Zealand.	In 2010 New Zealand cancelled its R&D tax credit and replaced it with a system of cash grants that require advance approval. This system has been funded for a four year period (expires 2014)

Scitax
Scitax Advisory Partners LP
R&D Tax Credit Specialists

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 http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm www.hmrc.gov.uk	Super-Deduction, and / or Cash Refund Actual	For Small Companies ("SME's" - Under 500 employees, annual income less than €100M and assets less than €86M. Less than 25% owned by non-SMEs and cannot own more than 25% of a non-SME): 175% deduction of expenditures up to €7.5M per R&D project. For tax years after 1 April 2011 the deduction becomes 200% deduction and is further increased to 225% in 2012 (not retroactive). SME's lacking sufficient taxable income to absorb the entire investment tax credit amount may the have remaining benefit paid as a cash refund of up to 24% of their total expenditure on R&D. For tax years up to 1 April 2011, the maximum amount of this cash refund is capped at the amount of payroll taxes and social security paid in the fiscal year; this constraint is removed for tax years after 1 April 2011. For Large Companies: 130% of deduction of expenditures in excess of £10,000, no upper limit (limit removed for periods after 1 April 2012). Deductions unused in current year may be reserved and used in other years. For all companies engaging in vaccine development, expenditures are eligible for a 140% deduction under the Vaccine Research Relief program for development of vaccines and medicines for specific diseases.	SME's must be "going concern" i.e. financially viable commercial operation For tax years prior to Dec 9, 2009, company must retain ownership of resulting intellectual property (since abolished).	1) Employing staff directly and actively engaged in carrying out R&D. 2) Limited / poor eligibility for capital expenditures. 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) Payments to subcontractors and externally-provided workers limited to 65% (i.e. the purchase of R&D results or services from another company). For large companies, subcontractors also limited to 65%, and full deduction for work carried out by specific organizations (e.g. hospitals, universities) and contributions toward independent research. 5) As a subcontracted company, expenditures eligible for 130% deduction (for SME and large companies) if work subcontracted by a large company or a person with no taxable trading profits. For subcontracted SME's, work can be done internally or externally (e.g. by charities, individuals, etc.). 6) For grants paid, SME's eligible for a 200% deduction for the difference of expenditures and the grant, and eligible for a 130% deduction for expenditures paid for by the grant. 7) Overseas companies claiming work carried out by a UK subsidiary will be eligible only for work carried out by the UK subsidiary and only under the large company scheme.	Small and medium sized companies 2000 large companies 2002 Permanent

United States Research Credit Internal Revenue Service United States Department of the Treasury http://www.irs.gov/businesses/article/0,,id=101382,00.html www.irs.gov	Investment Tax Credit Incremental	At the federal level; an investment tax credit calculated by either of two basic methods: 1. Traditional Credit Calculation: 20% of qualified R&D 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 2. Alternative Simplified Credit (or Alternative Incremental Credit): 12% of qualified R&D expenditures (14% for tax years ending after Dec 31, 2008), less 50 percent of the qualified R&D expenditures over the three preceding taxable years. Start-up companies use the higher of the following two schemes: 1) A fixed-base percentage of 3 percent is assigned that continues for each of the first five years beginning after 1993. For the next four years, a fraction of the ratio between aggregate qualified R&D expenditures and aggregate gross receipts determines the fixed-base percentage. For tax years after the eleventh year, the same ratio is used from tax years 5 to 10. Only years with qualified R&D expenditures are included. 2) The base amount is set to 50% of the year's qualified R&D expenditures for the first five years of operation. In addition, many states offer their own tax incentives that generally act in addition to the federal. In some cases these state level tax credits may offer a refundable cash benefit. ALSO Additional supplementary tax credits may be available at the federal level for certain types of R&D activity, notably: 20% credit for up to 50% of eligible basic research payments to approved research organizations (similar to Ontario's OBRI credit) & 20% of expenditures on qualified energy research undertaken by an energy research consortium.	Subject to restrictions on the general business credit. Businesses under $50 million can use the R&D Tax Credit in conjunction with other general business tax credits to offset the Alternative Minimum Tax (AMT), as part of a small business bill passed in 2010.	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. * AVAILABLE * Expired in January of 2009, but subsequently passed by the House of Representatives on December 17, 2010, and will be available through 2011. Note: Remains non-permanent and subject to annual renewal process. Oct 2008 legislation retroactively approved credit for amounts paid or incurred in 2008 through Dec 31, 2009. Changes have been proposed to increase the Alternative Simplified Credit to 17%.

<u>END NOTES – KEY TO BENEFIT TYPES</u>

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).
8) Cash grant – a set amount of cash funding is allocated to a specific project or activity to accomplish a particular objective within a defined budget. Grants are generally applied for and approved in advance before the funded work starts.

<u>about Scitax™ ...</u>

Scitax™ Advisory Partners LP is a Canadian professional services firm with specialist expertise in planning, preparing and defending Canadian R&D tax credit ("SR&ED") claims.
Our services include: international planning, site selection, structuring / re-organizing of R&D operations for tax credit optimization, tabulation of expenditures, writing of project technical descriptions and setting up compliance record keeping systems. We also advise / assist our clients in dealing with Canadian tax authorities (CRA) on SR&ED and related tax matters.
Normally we work in concert with our Client's existing tax firm, however chartered accountants at our sister firm of Cadesky & Associates LLP are available as may be required for advice on any specific domestic or international taxation issues such as may arise during the course of our work.

David R Hearn - Managing Director --- for further information or to contact us, visit www.scitax.com or www.cadesky.com

- END –