



Global Survey of R&D Tax Incentives

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Many countries offer tax incentives to encourage research and development efforts leading to increased domestic business growth.

Preface



A significant number of countries now offer the critical operational pre-requisites for conducting research and development (R&D), i.e., access to growing markets/customer base, access to talent, intellectual property protection, stable economy/government, and information technology infra-structure. These attributes have led many countries to promote re-location of R&D operations to their country as part of their innovation-led economic development strategies. R&D tax incentives are an important component of these strategies.

Countries offering R&D tax incentives are regarded as a more suitable location for internationally-mobile R&D. When efficiently allocated, companies effectively leverage their global R&D infrastructure resulting in the development of valuable intellectual properties.

R&D incentives vary by country with regard to the following "key" considerations:

- Computational mechanics;
- The levels of benefits available; and
- The certainty of realizing an economic benefit from the tax incentive.

Although the basic definition of "research and development" is similar across many countries, distinctions exist within sovereign laws. Some countries offer particularly lucrative incentives, subject to few restrictions on the location of the qualified research activity, funding of R&D, ownership of IP, etc.; while others offer basic incentives with significant limitations, including eligible industries, qualified costs, and application procedures. Most research incentives are designed to encourage companies to maintain a certain level of R&D, with additional incentives for increased research spending. A few regimes offer tax benefits for capital investments in R&D, while most offer incentives for operational costs, i.e., wages, supplies, and contractor fees. Moreover, many countries offer enhanced tax incentives for start-up companies.

The following analysis summarizes and compares R&D tax incentives in the countries typically considered as viable locations for conducting R&D.

Analysis of National R&D Incentives

Australia

Background

Australia's corporate tax rate is 30%. Australia offers R&D incentives in the form of deductions and refunds (in certain circumstances). A new two-tier R&D credit is proposed to replace the existing regime for tax years commencing on or after July 1, 2011. The proposed rules include a refundable credit equal to 45% of the current R&D expenditures for companies with gross receipts of less than \$20M and a 40% nonrefundable credit for other companies. The following provides the currently available incentives through June 30, 2011.

Nature of Incentives

- *125% Super Deduction*: Tax deduction equal to 125% of R&D expenditures.
- *175% Incremental Super Deduction (Domestic)*: The 175% super deduction applies to the increment of R&D spending exceeding the company's average R&D spending in the 3 prior years, as long as the company claimed the 125% super deduction in the 3 previous years (special rules apply for control groups, i.e., where the taxpayer meets the 50% ownership/control test or associates).
- *175% Incremental Super Deduction (International Concession)*: R&D undertaken in Australia on behalf of a foreign-related company located in a country with which Australia has a Double Taxation Agreement (DTA) can also claim the 175% super deduction (special rules apply for "grouped" companies, i.e., where the taxpayer meets the 50% ownership/control test or associates).
- *Refundable Tax Incentives*: R&D Tax Offset (potentially refundable) for small companies with less than \$5M in gross receipts and grouped expenditures of no greater than \$2M for the year. The Tax Offset may be used when the taxpayer utilizes the 125% super deduction (as well as the additional domestic 175% R&D incremental super deduction, if applicable). If the taxpayer meets the applicable tests, either deduction may be converted into a tax credit/offset.

R&D expenses can be carried forward indefinitely, but not carried back. The carryforward allowance is subject to ownership continuity.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

Qualifying expenditures include: staff costs, direct costs, overhead, supplies, and capital expenditures.

IP & Jurisdictional Restrictions

Up to 10% of the activities qualifying for the super deduction can be carried on outside Australia.

Intellectual property rights must generally be retained in Australia. This requirement does not apply, however, with respect to IP developed through activities that qualify for the 175% Incremental Concession (International). If there is no DTA, the Incremental Concession (International) is available to the extent such expenses were incurred in Australia. If technology is purchased for further development by the company, then the current year deduction for the purchase cost is limited to 1/3 of the expenditure on the internal development activities.

Other Concerns

Taxpayers must file the Application for Registration of R&D Activities within 10 months of the tax year end. All incentives are claimed on the taxpayer's annual tax return.



A new R&D tax credit is proposed to replace the existing super deduction for tax years commencing on or after July 1, 2011.

Austria

Background

Austria's corporate tax rate is 25%. For financial years ending before January 1, 2011 Austria provides:

- Super deduction;
- Cash-back incentive; and,
- Additional super deduction for incremental increases in qualified expenses.

For financial years beginning after December 31, 2010, Austria provides a 10% volume-based tax credit only. The following provides the currently available incentives through December 31, 2010.

Nature of Incentives

The incentives available for R&D intensive entities include (not subject to cap):

- *Super Deduction:* Tax deduction equal to 125% of all qualifying R&D expenditures;
- *Incremental Super Deduction:* Incremental deduction equal to 135% of qualifying expenditures exceeding the average of the prior 3 years; as long as the R&D activity results in a patent or a certificate issued by the Austrian Ministry of Economic Affairs, which evidences the economic value of the aspiring or completed invention; and,
- *8% Volume-based Credit:* A law provides for a tax credit equal to 8% of qualifying R&D-related expenditures. This credit is refundable to the extent the credit exceeds the amount of the tax liabilities.

The taxpayer must elect the super deduction or the cash-back premium (which is generally more favorable). The taxpayer makes the election in the tax return (may do so until the assessment becomes final).

A carryforward for the super deduction and incremental super deduction is available when the taxpayer is in a loss position. Loss position may be carried forward indefinitely.

For income from royalty payments related to self-developed intellectual properties or capital gains from sale of self-developed intellectual properties, the tax rate is reduced by half for individual taxpayers.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

Qualified research and development, in general, is any systematic or intensive study undertaken in the field of science or technology with the objective of using the results of the study for the production of new or fundamentally improved materials, devices, products, or processes.

Companies must elect a super deduction or a refundable tax credit. New law applicable for 2011 provides a 10% volume-based refundable tax credit.

Qualifying activities must be conducted with the purpose of increasing knowledge and developing new applications. The definition of research includes basic and applied research, as well as experimental development within the meaning of the Organisation for Economic Co-operation and Development ("OECD") Frascati Manual.

Qualifying expenditures include: capital investment, finance costs, staff costs, overhead, leasing costs, and subcontractor fees. The definition of qualified expenditures varies according to the incentive. Generally, the cost base for the 125% super deduction or the 8% cash refund is broader, including capital expenditures.

When subcontracted R&D is performed, generally only the person paying for the subcontracted R&D can claim it (not the party conducting the research). The party funding the research must inform the subcontractor that they intend to claim either the super deduction or cash back premium. If the funding entity does not claim the benefit, then the subcontractor, if at risk, can claim the costs under either incentive.

IP & Jurisdictional Restrictions

Activities may occur outside of Austria in a branch or a plant within EU/EEA; however, the Austrian entity must fund the research endeavor.

No restrictions are imposed upon the location of the IP.

Other Concerns

For the super deduction and cash-back premium, no pre-approvals are required.

Each incentive is claimed via the annual tax return.



Belgium

Background

Belgium's general corporate tax rate is 33.99%.

Nature of Incentives

- *Investment Deduction*: Taxpayer may elect a 13.5% one-time deduction of all R&D Investments recorded on the balance sheet (tangible and intangible) or 20.5% of the total depreciation amount for the same R&D Investments (i.e., taxpayer computes the depreciation amount and multiplies this amount by 20.5%). This is in addition to the standard depreciation deduction for such expenses; resulting in a super deduction of 120.5% of the amount of depreciation deductions for capital assets, etc. used in research. Excess deductions may be carried forward indefinitely or converted into a tax credit refundable after 5 years.
- *Patent Income Deduction (PID)*: Allows taxpayers to deduct 80% of their qualifying patent income from their taxable income (resulting in a 6.8% maximum effective tax rate).
- *Partial Wage Tax Exemption*: 75% withholding exemption granted to the business for wages paid to qualifying researchers working on R&D projects.

Additionally, companies may be granted temporary "innovation premiums" for their employees, thereby eliminating tax and social security withholding requirements.



Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

In order to receive the benefit, the taxpayer must certify that the R&D investments are made in order to develop products / services that are:

- Innovative in the Belgian market; and,
- Have no negative environmental impact (or, if there is an environmental impact, the taxpayer has taken the steps necessary to mitigate such impact).

Qualifying costs include: salaries and wages, direct costs, subcontracting costs, overhead, and depreciation.

IP & Jurisdictional Restrictions

The deduction and credit may be claimed for R&D work performed outside Belgium, though the claimant must retain any associated IP in Belgium to receive the tax benefit.

Other Concerns

Taxpayer must file a claim for environmental certification through the regional authorities by March 31st to obtain benefits from the Investment Deduction. In order to claim either benefit, the claimant must receive a certificate from the region in which the qualified activity occurs.

Patent income deductions, super deductions, and wage tax exemptions are just a few of the incentives offered.

Brazil

Background

Brazil's general corporate tax rate is 34%. All incentives are available for companies that operate under the Lucro Real tax regime.

Nature of Incentives

- *R&D Super Deduction*: Super deduction equal to 160% of the total R&D expenditures.
- *Enhanced R&D Super Deduction*: If the entity increases the amount of researchers by up to 5% in a given year, the super deduction increases to 170%; and if it increases more than 5% in a given year, the super deduction increases to 180% of the qualified expenses.
- *Enhanced R&D Super Deduction for Patents*: An additional 20% deduction is allowed for the qualifying costs incurred in developing a patent, but the super deduction is only allowed when a patent is registered. Since the super deduction is delayed until the patent is registered, few taxpayers take advantage of this provision.

Unused deductions may not be carried forward or carried back.



Brazil offers super-deductions, excise tax abatements, and withholding tax benefits for research performed in Brazil.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

Activities undertaken to achieve technological innovation qualify for the R&D tax incentives. These activities include designing new products or processes, as well as the aggregation of new functionalities or characteristics to a product or process, resulting in incremental improvements in quality or productivity. Additionally, software development qualifies as an R&D activity. However, routine and standard software development activities that do not present scientific or technical advancements or do not aim to solve technological uncertainties do not qualify.

R&D expenditures include wages, salaries, and certain payments to third parties (e.g., staff augmentation, laboratory maintenance, etc.), directly attributable to the conduct of qualified R&D activities. Companies performing research for other companies for a fee can take the super deduction, but exceptions may apply and contracting expenses are evaluated on a case by case basis.

IP & Jurisdictional Restrictions

Only expenditures incurred within Brazil are eligible for the incentives (except for IPI reduction benefit noted below). The resulting IP does not have to be held within Brazil.

Other Concerns

Companies must have a tax clearance certificate to qualify for the super deduction. Specific accounting controls are also required, i.e., the chart of accounts should present specific accounts indicating the R&D expenditures.

Brazil also provides the following additional research incentives:

- Equipment, machinery, and tools exclusively dedicated to R&D can be deducted when the expense is paid or incurred.
- Equipment, machinery, and tools acquired exclusively for R&D by IT companies, as well as companies with automation activities, that benefit from specific IPI Reduction (see below), can take a super deduction on the cost of such equipment.
- *IPI Reduction (federal excise tax)*: Equipment, machinery, and tools dedicated to R&D receive a 50% reduction of the IPI due. This incentive must be claimed at the time the research related equipment, machinery, or tools are acquired.
- *Withholding Tax Benefits*: 10% tax credit on the withholding tax for royalties paid abroad up to calendar year 2013 under technology transfer agreements approved by the Federal Intellectual Property Agency.

Canada

Background

Federal and provincial corporate tax rate (combined) on business income is between 12% and 32.5% (rate is dependent upon the size of the corporation, ownership, and provincial jurisdiction).

Nature of Incentives

- *SR&ED Deductions*: Immediate deduction for all qualified current and capital expenditures (no super deduction).
- *SR&ED Investment Tax Credit*: 20% federal tax credit for all qualifying R&D costs for eligible activities carried on in Canada. The credit rate is increased to 35% for small Canadian-controlled private corporations (on expenditures up to \$3M per year, see below for definition). This 35% credit is fully refundable.
- *Provincial SR&ED Incentives*: Tax credits ranging from 4.5% to 37.5% depending upon the provincial jurisdiction. Some provincial jurisdictions offer refundable credits.
- *Special Tax Credits* exist for specified industries, including: IT, media, video games, and film.
- *Enhanced Tax Credits* exist for research conducted by universities, research centers, and research consortia.

Refundable Credits for Small Canadian-Controlled Private Corporation: Federal SR&ED investment tax credits are refundable on the first \$3 million of expenditures if earned by a small Canadian-controlled private corporation. The corporate group of companies must have less than \$800K of taxable income and less than \$50M in taxable capital in the prior year to be eligible. Federal refunds are not available for foreign controlled or public corporations; although some provincial refunds are refundable.

Although there is a cap on refundable credits, as noted above, there is no cap on the total amount of benefits conferred through R&D incentives.



Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

To qualify for SR&ED incentives, work must advance the understanding of scientific relations or technologies, address scientific or technological uncertainty, and incorporate a systematic investigation by qualified personnel. Work that qualifies includes:

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

Eligible R&D expenses include: wages, materials (consumed or transformed), 100% of subcontracted R&D, overhead (or a proxy amount in lieu of overhead), lease payments, payments to universities, colleges, and consortia, and certain capital expenditures.

IP & Jurisdictional Restrictions

There are no restrictions on the location of IP, although the Canadian company must have the right to exploit the results of sub-contracted research. Qualified research must occur in Canada. Generally, research must be conducted within Canada to be eligible for tax credits. However, the exception is that up to 10% of the total labor claims can be conducted outside of Canada.

Other Concerns

For tax years beginning after 2009, taxpayers must submit extremely detailed information on Form T661 and T2 Schedule 31 in order to claim the R&D credit. The form requests detailed information for each eligible project (pre-approval is not required). Filings not accepted after the filing deadline (18 months after tax year end of the company).

Companies may elect to participate in the Account Executive Program, whereby an Account Executive from the Canada Revenue Agency is assigned to the taxpayer to provide assistance in preparing R&D tax credit submissions. The stated purpose of this program is to "help make sure you get maximum benefits from the tax incentives available."

Canada offers one of the most lucrative research credits in the world.

China

Background

China offers a host of tax and other incentives. The corporate tax rate is 25%. The R&D incentives are offered in the form of income tax deductions and reductions in enterprise income tax rates.

Nature of Incentives

- *Super deduction*: Tax deduction equal to 150% of the qualifying R&D expenses.
- *Rate Reduction*: Reduced 15% corporate tax rate for companies granted High and New Technology Enterprise (HNTE) status. HNTE status must be applied for and renewed every 3 years.
- *Tax Exemption*: Business tax exemption for the transfer of qualified technology.

Tax Incentives for Technology/Software Companies:

- The first RMB 5M of income from qualified technology transfers are exempt from the Enterprise Income Tax (EIT).
- Any income from technology transfers in excess of RMB 5M is taxed at a 50% reduced EIT rate.
- Newly established Software companies are often granted tax holidays.
- Additionally, taxable Software companies may also be granted a business tax exemption on qualified income.
- Qualified software companies may enjoy exemption of import duty on self-used equipment and materials.
- Qualified newly established HNTEs in special zones are often granted a tax holiday.
- HNTE companies are eligible for the 150% super-deduction in addition to the reduced corporate tax rate.

Tax losses attributable to R&D super deduction claims can be carried forward up to 5 years.

Eligible Industries & Qualifying Costs

The Chinese government provides the following list of eight state encouraged industries that are considered in awarding HNTE status:

- Electronic Information Technology
- Biological & New Medical Technology
- Aviation & Space Technology
- New Materials Technology
- New Energy & Energy Conservation Technology
- High Technology Service Industry
- Resources & Environmental Technology

- Transformation of Traditional Industries through High-New Technology

Qualified activities include development of new technology, new products, and new production techniques. Qualifying expenditures include: staff costs, direct costs, supplies, depreciation and amortization, design costs, equipment installation costs, intangible asset amortization, and contracted R&D costs.

IP & Jurisdictional Restrictions

Less than 40% of the R&D expenses qualifying for the HNTE incentive may occur outside China. The IP must be located in China for HNTE.

In order for the authorities to grant super deduction approval, they may consider whether IP will be retained in China; however, this is not required by law.

Other Concerns

Government approval is required to take advantage of the tax incentives. The taxpayer must register and apply for approval with the Science & Technology Bureau and the tax authority.

China offers a 150% super deduction for eligible research and development expenditures.



Czech Republic

Background

The Czech Republic's corporate tax rate is 19% in 2010. The Czech Republic offers a super-deduction for costs incurred for qualified research activities.

Nature of Incentives

- *Super deduction:* Deduction equal to 200% of the costs incurred during the implementation of research and development projects.
- *Other Non-Tax Related R&D Incentives:* Cash grant programs for research and development including CAPEX investment.

Research and development projects include projects in the form of experimental or theoretical works, design or drawing works, calculations, proposed technologies, or the making of a functional sample or a product prototype or its part.

If the super deduction cannot be utilized in the year it is claimed, then it must be carried forward and utilized within the next three taxable periods.



Eligible Industries & Qualifying Costs

The basic criteria that distinguish research and development from other activities are the presence of a measurable element of novelty and clarification of research or technical uncertainties. The measurable element of novelty and research or technical uncertainties must be present even if the subject of the research is known in the industry, as long as the taxpayer can prove no one else in the industry is receiving economical benefit from the same research.

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.

Qualified expenses include: wages and salaries; depreciation of tangible movable property and intangible assets used in direct relation to the project; and, other operating expenses directly related to the project (i.e., materials, supplies, and retail tangible/intangible assets, expenses for books and magazines, electricity, heat, gas, telecommunications, and water and sewage rates).

IP & Jurisdictional Restrictions

There are no IP registration requirements. Not all R&D activities must occur within the Czech Republic to qualify for a super deduction.

Other Concerns

The taxpayer must provide a written "summary" document specifying the qualified activities before the start of the project.

Additionally, the taxpayer may file an application for a binding ruling on the qualifying research and development expenses with the local competent tax administrator.

Eligible R&D expenditures can be carried forward 3 years.

France

Background

General corporate tax rate is 34.43%.

France offers an R&D tax credit that is volume-based and can be carried forward for 3-years. To the extent the credit is not utilized within that 3-year window the taxpayer can apply for a refund.

A temporary measure was enacted to enable taxpayers to get immediate refunds for any unutilized research credits for the period from 2005 to 2009. Research credits for 2010 forward are subject to the 3-year utilization rule mentioned above, with an exception for SMEs, new companies, young innovative companies and companies facing financial issues – who are able to claim immediate refunds for any unutilized credits.

Nature of Incentives

R&D expenses are deductible in the year in which they were incurred. Additionally, France offers an R&D credit.

In 2010 the credit equals:

- 30% of the first €100M of qualified R&D expenditures incurred during the tax year; plus, 5% of any amount in excess of the €100M threshold.
- 50% (40% in 2011) for new applicants for the first year (subject to limitation), 40% (35% in 2011) for the second year (subject to limitation), and 30% thereafter.

France offers a host of other incentives aimed at encouraging the growth of R&D-intensive businesses including innovation grants and acceleration of depreciation deductions for fixed assets used in R&D activities.

Eligible Industries & Qualifying Costs

There is no restriction on the types of entities that may qualify for incentives. Qualified activities include basic research, applied research, and development activities. The definition of qualifying R&D is from the OECD Frascati Manual; providing generally that qualified R&D activities:

- Present a significant technological advancement when compared to the then current state of the art;
- Utilize the combined efforts of researchers, scientists, and technologists;
- Is uncertain with regard to the anticipated outcome and includes complexity concerning the methodology itself; and,
- Require the usage of scientific methods/ protocols to achieve results.

Generally, eligible expenses include the following: R&D staff expenses, general and administrative expenses, depreciation allowances for assets used for R&D activity in France, patent costs, contract costs, and costs of technological monitoring. Materials consumed in the

research process do not qualify. There is no at risk rule in France and consequently research credits can be claimed for contractors; i.e., the taxpayer can claim research spending paid to contractors even if the taxpayer is not at risk.

Rather than determining general and administrative expenses, the French law allows a G&A estimate of 75% of all R&D staff expenses. The law changed in 2011 to reduce the percentage to 50%. Additionally, in 2011, depreciation expenses related to research equipment and facilities are now limited to 75%. Finally, in 2011 there are restrictions on contract research expenses that should be considered.

IP & Jurisdictional Restrictions

100% of the qualified activity must occur within the EU (as long as the expenditure is part of the company's tax base). There is no restriction on the location of any resulting IP.

Other Concerns

The taxpayer can seek governmental pre-approval for projects; however, pre-approval is not required in order to benefit from any of these incentives. Taxpayers can also apply for contractor certification by the Ministry of Research. Payments to certified contractors are treated as R&D expenditures.

For 2011 companies having R&D expenses higher than €100M have new documentation requirements. Failure to comply with these requirements may result in penalties.

France offers the most generous R&D tax incentives among the OECD countries.



Germany

Background

Germany's corporate tax rate is generally 15%, with a 5.5% solidarity surcharge levied on corporate income tax. Municipal trade tax is imposed at rates between 14% and 17%, with rates determined by municipalities. Combined rate (i.e., corporate income tax, trade tax, solidarity surcharge) approximately ranges from 30% to 33%.

Nature of Incentives

R&D incentives, mainly in the form of non-repayable cash grants, are awarded on a "per project" basis, most frequently for collaborative projects. There is no legal claim for R&D funding.

Grant rates can reach up to 50% of eligible project costs. Higher rates may be possible for SMEs.

The selection criteria for eligible projects include:

- Level of innovation
- Level of technical risk
- Level of economic risk

R&D loans can be an alternative to R&D grants. R&D loans are not contingent on conducting R&D activities in a specific technology field and there are no application deadlines. R&D loans are provided under different governmental programs. For instance, the ERP Innovation Program offers 100% financing of eligible R&D project costs up to €5M.

R&D tax incentives are not yet offered. However, the introduction of such is on the political agenda.



Eligible Industries & Qualifying Costs

Eligibility is not limited to particular industries. Companies in the following industries typically seek cash grants:

- Biotech and Life Sciences
- ICT (Information and Communications Technologies)
- Manufacturing
- Energy & Utilities

However, some industries are usually excluded from eligibility:

- Banks and companies in financial services
- Insurance companies

Qualifying expenditures include: staff costs, materials, overhead, subcontracts, amortization, and travel costs. Cash grants are generally issued to reimburse the business for costs already incurred.

Qualified activities include:

- *Fundamental Research* – experimental or theoretical work aimed at gaining new knowledge;
- *Industrial Research* – research with a specific practical objective aimed at developing new products, processes, or services, or at improving existing ones; and
- *Experimental Research* – research aimed at producing draft, plans, and prototypes.

IP & Jurisdictional Restrictions

R&D activities and costs must be incurred within Germany. The exploitation of project results must take place in Germany.

Other Concerns

Attractive grant programs exist for projects related to energy efficiency, CO2 reduction, and renewable energy. However, funding is not restricted solely to this sector.

Large projects require EU notification (generally above €7.5M).

Germany offers grants for R&D intensive entities.

Hungary

Background

Hungary's corporate tax rate is 10% for taxable income up to mHUF 500, then 19% exceeding that limit.

Nature of Incentives

- *Super Deduction*: 200% super deduction for qualifying expenditures.
- *Special Salary Deduction*: Taxpayers may be entitled to an additional deduction of 10% of the salary costs related to R&D activities (up to 70% of the corporate income tax payable). This special deduction can be utilized in four equal installments (current year and subsequent three years). Unused deductions may be carried forward for four years.
- *"Patent Box"*: If IP is created as a result of the R&D, 50% of the gross amount of the royalty received (up to 50% of the profit before tax) may be deducted from the corporate income tax base upon the taxpayer's election. (Example: If profit before tax is 80 and the royalties received are 100, the deduction is 50% of the royalty received limited to 50% of the profits before tax, i.e., the deduction is 40. If the profit before tax is 120, the deduction is limited to 50% of the royalty received, i.e., 50).
- *Local Business Tax Base Reduction*: The R&D costs can be deducted when computing the local business tax base as of January 1, 2010.
- *Reduced Innovation Contribution*: An innovation contribution is collected by the government to generate funds for corporate R&D. The contribution assessed equals 0.3% of the local business tax base (i.e., annual operating revenue less R&D cost, cost of goods sold, materials cost, and mediated services). Corporate taxpayers may deduct the direct costs of their own R&D activities (or the costs of subcontracted R&D purchased from certain non-profit organizations) from the amount of the innovation contribution (this is over and above the 200% super deduction).

Refunds of R&D incentives are not available.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries. Qualifying expenditures are defined broadly and include all direct costs incurred in R&D. Eligible expenditures typically include:

- Gross wage cost of new or existing R&D and/or marketing staff
- Cost of new equipment
- Cost of certain goods/materials/R&D services purchased from third parties

IP & Jurisdictional Restrictions

There is no restriction on the location of IP.

Incentives are available to foreign entities without Permanent Establishment (PE) subcontracts in Hungary. Tax incentives can be claimed by Hungarian companies providing R&D services to a related foreign party.

Other Concerns

R&D benefit can be claimed retrospectively within the statute of limitations. No prior governmental approval is required to claim R&D incentives.

R&D intensive entities may receive substantial cash grants from Hungarian and EU sources.



Hungary provides a 200% super deduction and cash grants.

India

Background

Corporate tax rate is 32.45%.

Nature of Incentives

As of April 1, 2010 the incentives for conducting R&D include:

- A 200% super deduction for in-house R&D expenditures, including capital expenditures (other than land and buildings). The super deduction is limited to taxpayers in the business of bio-technology or manufacturing and producing products (other than products on the negative list such as alcoholic products, tobacco products, cosmetics, toothpaste, aerated waters using blended flavoring concentrates, confectionary, record players, projectors, office machines and apparatus, steel furniture, safes, latex foam, crown corks and caps for packaging). The R&D facility must be approved by the Department of Scientific and Industrial Research (DSIR) in order to qualify for super deductions.
- A super deduction of 125% to 200% for payments made to prescribed entities carrying out research and development in India.
- 100% deduction for R&D expenses that do not otherwise qualify for the above super deductions.

There is no cap on the R&D benefits available in India.

The approval of expenditures for in-house research and development by a company for purposes of the 200% super deduction shall be subject to the following conditions:

- The R&D unit should be located in a separate earmarked area;
- The R&D unit should have exclusive manpower of its own;
- If an R&D expense qualifies for the super deduction, this same expenditure cannot be deducted under any other provision of the tax code;
- No deduction shall be allowed with respect to expenditures incurred after March 31, 2012;
- The facility cannot qualify if it is used exclusively for market research, sales promotion, quality control, testing, commercial production, style changes, routine data collection, or activities of like nature;
- The company must maintain a separate account for each approved facility which shall be audited annually and a copy thereof shall be furnished to the Secretary of the DSIR by October 31st of each succeeding year; and;

- Assets acquired with respect to development of scientific research and development facilities shall not be disposed of without the approval of the Secretary of the DSIR.

Eligible Industries & Qualifying Costs

Research expenses, including clinical trials, incurred by pharmaceutical companies also qualify for the 200% super deduction if the company manufactures or produces the drugs in India. The company must obtain approval from regulatory authority under Central, State or Provincial Act and file an application for a patent under the Patents Act, 1970.

Qualifying expenditures include: wages, supplies, utilities, and other expenses directly related to R&D. Specifically excluded expenses include: general and administrative costs, depreciation, overheads, and allocated expenditures.

IP & jurisdictional Restrictions

R&D activities must be conducted in India. There is no location restriction with respect to IP.

Other Concerns

If the taxpayer is in a loss situation, unused benefits may be carried forward for the next eight years, but cannot be carried back.

Prior to April 1, 2010, the incentive for conducting R&D was 150% super deduction (instead of 200%). The Direct Taxes Code (DTC) is set to replace the existing income tax laws on April 1, 2012. The DTC is expected to include the current 200% super deduction.



Research incentive is expected to be included with the new Direct Taxes Code for 2012.

Ireland

Background

Ireland's general corporate tax rate is 12.5%

Ireland introduced significant modifications to its R&D tax credit regime effective for accounting periods beginning on or after January 1, 2009. All credits are computed on a group basis.

Nature of Incentives

- *Deduction:* Generally, R&D expenses are currently deductible in the year incurred.
- *Incremental Credit:* 25% incremental credit for all expenditures exceeding the "base amount." The base amount equals the total qualified expenditures incurred during 2003. If the company did not exist in 2003 or it incurred no qualified expenditures in the first 12 month accounting period ending after January 1, 2003, the base amount is zero and the credit is available for all expenditures.
- *R&D Facilities Credit:* 25% credit for expenditures incurred for buildings or structures used in the conduct of qualified R&D activities (provided at least 35% of the building is used for qualified R&D over a 4-year period). There is no base calculation for the buildings credit.
- R&D grants are also offered.

Unused credits may be carried back to reduce the tax liability of the preceding accounting period (and carried forward indefinitely). If the credit is not fully utilized in the current and preceding tax period, the excess may be carried forward or refunded to the taxpayer through payments from the Revenue Commissioners (payments made over 3 years).

Credit refunds are subject to limitation. Refunds are limited to the greater of the total corporation tax paid by the company for the 10 years prior to the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the expenditures were incurred.



Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

R&D activities mean systematic, investigative, or experimental activities in a field of science or technology, that include: basic research, applied research, and experimental development. Generally, four categories of activity qualify for the credit:

- Natural Sciences;
- Engineering & Technology;
- Medical Science: basic medicine, clinical medicine, or health sciences; and,
- Agricultural Sciences.

Qualifying expenditures include: royalties, expenses deductible for trading purposes (wages and supplies), plant and machinery entitled to capital allowances, revenue and capital expenditures on scientific research, and buildings subject to capital allowances. Contracted research costs up to a limit of 10% of total qualifying expenditures on research and development activities in any one year qualify under the tax credit scheme. This applies where the subcontractor carrying out the research and development is unrelated to the company who paid for the research. If an Irish company performs research for other unrelated companies for a fee, the company performing the research is permitted to claim the credit, as long as the company providing the funding is not claiming the credit. Where the R&D activities are contracted to a university or institute, the limit is 5% of the company's R&D expenditures in the period.

IP & Jurisdictional Restrictions

R&D activities must occur within Ireland or the European Economic Area (EEA). The credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted.

The resulting IP does not have to reside within Ireland.

Other Concerns

No governmental pre-approval is required.

Credit must be claimed within 12 months after the end of the accounting period in which the expenditure was incurred.

Credits may be refunded for qualifying R&D undertaken in 2009 and after.

Israel

Background

Israel's corporate tax rate is 24% of business income. The Office of the Chief Scientist (OCS) of the Ministry of Industry Trade and Labor implements the government's policy encouraging and supporting industrial research and development. They are responsible for promoting industrial R&D that is likely to lead to new export products. The following incentives are available only if approved by the OSC after applying the following criteria: proven technological skill of the applicant, plan to implement the project in Israel (unless exempted by the research committee of the OCS), and a need for improvements to an existing product.

Nature of Incentives

Alternative Tax Program:

- Company must waive the project's rights to qualify for grants and to receive complete exemption from corporate tax on its undistributed income.
- Tax benefits are given to two kinds of companies; Companies located in Priority Area A, which are eligible for a lower tax rate of 6% (10% tax rate in 2011-2012, 7% in 2013-2014). Companies located in Priority Area that is not A, which are eligible for a lower tax rate of 12% (15% tax rate in 2011-2012, 12.5% in 2013-2014).
- If the company pays dividends during a tax year in which the complete exemption is effective, the dividends are taxed at 15% and any exempted taxes become immediately payable.

Strategic Program:

- The program is intended for large multi-national companies whose annual gross receipts exceed 20B NIS, invest a minimum of 100M NIS in the project itself, and hire at least 250 new employees.
- Fulfilling the above requirements will allow the companies to use a reduced tax rate of 5% in Priority Area A and 8% in Priority Areas that are not A.

Eligible Industries & Qualifying Costs

Companies engaging in qualified R&D activities in the following industries are generally eligible for R&D incentives:

- Pharmaceuticals
- Software Development
- Automotives
- Energy & Utilities

Qualifying expenditures generally include: in-house labor costs, capital investments, supplies, overhead, and

contract costs.

The Office of the Chief Scientist's main program, the R&D Fund, supports R&D projects in Israel by offering conditional grants of up to 50% of the approved R&D expenditure, and up to 75% in priority regions. If the R&D project is successful, the company must repay the grant through royalty payments.

Israel also offers the following:

- Special benefits for Traditional Industries investing up to 7% of their taxable income in R&D: Industries in the food & beverage, textile, print, metal, and plastic sectors, will be exempted from refunding royalties to the OCS, until the end of 2012. Additional benefits may apply.
- A large Corporation (over 100M NIS annual taxable income) establishing R&D centers in priority regions in Israel, will be granted up to 75% of the approved R&D expenses. The corporation must invest a cumulative amount of at least 60M NIS in a period of 24 to 36 months.
- The MAGNET Program sponsors innovative generic industry-oriented technologies, through synergetic collaboration between industrial companies and academic research groups.
- Technological Incubators that provide grants of up to 85% of approved expenses for nascent companies to develop innovative technologies.
- The Tnufa Program is designed to encourage and support an individual entrepreneur in his initial efforts to build a prototype, register a patent, design a business plan, etc. Grants are offered up to 85% of the approved expenses for a maximum of 50,000 NIS for each project.
- Israel was chosen to serve as the Chairman of EUREKA in 2010-2011. EUREKA is the world's largest program promoting industrial innovation, aiding and supporting industrial R&D projects aimed at developing new products and bringing them to the market.
- Bi-national funds and Bi-lateral agreements for competitive R&D which enable joint R&D programs with foreign counterparts worldwide.
- Israeli companies can also apply for grants in the EU's main instrument for funding research and development activities, covering almost all scientific disciplines.

IP & Jurisdictional Restrictions

Restrictions are unique to each grant program.

R&D activities must occur in Israel. The Israeli company must incur the R&D related expenditures.

The resulting IP does not have to reside within Israel, though location is considered in the granting process.

Other Concerns

Generally, R&D expenses are deducted in the year incurred, but some expenses are deducted in installments over 3 years.

Companies must apply to the Office of the Chief Scientist of the Ministry of Industry Trade and Labor for tax exemptions, reduced tax rates and cash grants.



Japan

Background

Japan's general national corporate tax rate is 30%; however, other local corporate tax rates apply when calculating the total corporate tax liability of a company, which is approximately 41%. The Japanese R&D tax incentives are incremental and volume-based. A special non-refundable tax credit is extended to companies that have increased their research and development expenses.

Nature of Incentives

Entity	R&D Tax Credits
Small-and-Medium-Enterprises (SME): SME (Companies whose capital does not exceed JPY 100M, excluding a SME held by a large company/companies, whose capital exceeds JPY 100M)	12% of total R&D expenditures. The tax credit is limited to 30% of the company's national corporate income tax liability before the credit is applied. The 30% limitation is specifically applied for the fiscal years beginning on or after April 1, 2009 until March 31, 2012.
Large Companies	8% to 10% of total R&D expenditures. The tax credit limitation is the same as for SMEs as outlined above.
Additional (for both SME & Large Companies)	Either: 1) Where the current period R&D expenditures exceed: (i) the annual average of the R&D expenditures for the 3 preceding fiscal years; and, (ii) the highest annual R&D expenditure for the previous 2 fiscal years, then the company may claim 5% of the incremental R&D expenditures (i.e., the current year expenditure less the amount in (i)); or 2) where the current period R&D expenditure exceeds 10% of the average annual sales for the 4 most recent preceding fiscal years (including the current year), the company is eligible for a credit calculated using the following formula: (R&D expenditure less [Average Annual Sales x 10%]) multiplied by the R&D ratio (reduced by 10%), multiplied by 20%. The R&D Ratio is the amount of current year R&D expenses divided by average annual sales for the 4 most recent preceding fiscal years (including the current tax year). The tax credit is limited to 10% of the company's national corporate income tax liability before the credit is applied. The additional tax credit is available in relation to fiscal years commencing on or after April 1, 2008 and before April 1, 2012.



The R&D tax credit is available to blue tax return filers. Blue form tax return status is obtained by submitting an application form to the appropriate tax office.

Another R&D credit system is applicable for a company conducting R&D jointly with a qualified R&D institution (e.g., designated universities). Record keeping substantiation requirements are applicable under the corporate tax law.

Generally, unused R&D tax credits may be carried forward 1 year. The unused R&D tax credits for the fiscal years beginning on or after April 1, 2009 through March 31, 2010 may be carried forward up to 3 years. Research credits for fiscal years beginning on or after April 1, 2010 through March 31, 2011 may be carried forward 2 years.

Eligible Industries & Qualifying Costs

Research credits are not limited to any specific industry, though the activity must be technological/scientific in nature. Consequently, research conducted in non-technical fields will generally not qualify for the research credit.

To qualify for the credit, the expenses must be incurred in order to manufacture products, or to improve, design, formulate, or invent techniques.

Qualifying expenditures include: in-house labor costs, supplies, overhead, depreciation on fixed assets, and contract costs. Generally, salaries mean the amount paid to employees who devote 100% of their time to R&D, though recent interpretations permit segregation of activities if clearly documented. In 2003, the National Tax Authority officially announced that labor costs relating to performing qualifying activities may be allowable for R&D credit purposes, to the extent that details of the activities are clearly documented. Documentation should indicate the time spent by each employee on qualifying R&D activities, with details of appropriate calculations for the labor cost. The legislation is silent as to how to determine the applicable labor costs.

IP & Jurisdictional Restrictions

No provision of the Japanese law addresses where IP ownership should be retained. However, only tax deductible R&D expenses borne by the Japanese entity are eligible for the credit; thus, the general view is that the IP should be located in Japan. There is no location restriction on where the qualified activity occurs, though the Japanese company must bear the expenses.

Other Concerns

No prior approvals from government/regulatory agencies are required.

Credit must be claimed on the tax return for the relevant period. Claims on amended tax returns are not accepted.

Japan offers separate credits for Small-and-Medium Enterprises and Large Companies, as well as an additional credit for entities of all sizes.

Malaysia

Background

Malaysia's general corporate tax rate is 25%.

R&D incentives include:

- Investment Tax Allowance (ITA);
- Super Deductions; and,
- Enhanced benefits for Pioneer Status (PS).

Nature of Incentives

Investment Tax Allowance (ITA):

- Companies performing in-house R&D to further its business may qualify for an ITA of 50% on the qualifying capital expenditure incurred within 10 years.
- R&D service providers may qualify for an ITA of 100% on the qualifying capital expenditure incurred within 10 years.
- The company can offset the ITA against 70% of its statutory income for each year of assessment.
- Any unutilized allowances can be carried forward to subsequent years until fully utilized.
- Generally, R&D service providers should have at least 70% of their income derived from R&D activities in order to qualify for the ITA. If an R&D company does not claim the benefit for services provided to related companies, the related companies can receive a 200% super deduction for payments made to the R&D Company for services rendered.
- This benefit is available only to companies that are certified by the Malaysian Industrial Development Authority (MIDA).

200% Super Deductions:

- Companies performing in-house R&D to further its business are allowed to claim 200% super deductions for non-capital expenditures incurred in qualifying R&D, if approved by the Minister of Finance.
- 200% super deductions can also be claimed for cash contributions or donations to approved research institutes, and payments for the use of the services of approved research institutes, approved research companies, R&D companies, or contract R&D companies.
- Expenditures on R&D activities undertaken outside of Malaysia, including the training of Malaysian staff, will be considered for 200% super deductions on a case-by-case basis.
- Claims are submitted and reviewed by the Inland Revenue Board (IRB).

- Approved R&D expenditures incurred during the tax relief period for companies granted Pioneer Status can be accumulated and deducted after the tax relief period.

Enhanced Benefits for Pioneer Status:

The Minister of Finance is granted the authority to provide "pioneer status" to companies deriving income from certain activities and products that benefit the Malaysian economy. Promoted "activities" and "products" are determined by the Minister of Finance and published in the Government Gazette. R&D companies, high tech companies, software development companies, and manufacturing companies capable of producing world-class products are typically granted Pioneer Status. Statutory income earned by an R&D company provided Pioneer Status is exempt from tax for a period of 5 years. Pioneer Status, with government approval, can be extended for another 5 years.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries.

Qualified research, in general, is any systematic or intensive study undertaken in the field of science or technology with the objective of using the results of the study for the production or improvement of materials, devices, products, or processes.

Qualifying expenditures for the in-house research incentive include: wages, supplies, technical services, technical costs, transportation costs, maintenance costs, rents, and other expenditures incurred directly for the conduct of qualified research.

IP & Jurisdictional Restrictions

The resulting IP does not have to reside within Malaysia.

The R&D activities must generally be performed within Malaysia.

Payments for technical services performed outside of Malaysia may qualify for the 200% super deduction when the amount expensed is less than 70% of the total allowable expenditure for the super deduction.

Other Concerns

Current in-house research projects must be pre-approved before the 200% super deduction is permitted.

200% super deduction is available for companies approved by the Minister of Finance.

Mexico

Background

Mexico's general corporate income tax rate is 30%.

Although research and development (R&D) incentives were eliminated as part of Mexico's 2010 tax reform, funds have been allocated once again by the legislature to extend R&D grant programs to provide direct cash subsidies for qualified R&D projects undertaken in 2011.

The incentive is administered by the National Council for Science and Technology (CONACYT), which determines eligibility and grants the incentive to qualifying companies.

Nature of Incentives

The R&D incentives are provided in cash grants through the following three programs:

- *High Added Value Technological Innovation for Technological Research, Development, and Innovation (INNOVAPYME)*: Granting economic support to micro, small, and medium-sized enterprises (MIPYMES) for activities preferably performed in conjunction with higher education institutions or research centers.
- *Development and Innovation of Precursor Technologies for Technological Research, Development, and Innovation (PROINNOVA)*: Granting economic support to MIPYMES and large companies. Proposals are required to be presented on a network basis and must involve collaborative research with another entity and one research center/higher education institution.
- *Technological Innovation to Enhance Competitiveness for Technological Research, Development, and Innovation (INNOVATEC)*: Granting economic support to large companies. Priority is given to collaborative proposals involving research centers or higher education institutions.

Applications for the cash grant may be submitted from November to February.

The grants provided by the above programs range from 22% to 90% of eligible R&D expenses paid by the Mexican company. The largest grants are generally awarded for collaborative research conducted with a research center or higher education institution.

R&D costs, such as wages, supplies, and contractor fees are deductible when paid or incurred for income and flat tax purposes. Generally, buildings and capital equipment used in research must be depreciated, but some expenses can be deducted if certain requirements are met.

Eligible Industries & Qualifying Costs

The R&D grants are not limited to specific industries. Eligible companies engaged in activities related to technological investigation, development, or innovation may qualify – particularly if the proposal includes collaborative research.

The grants offered will typically cover the related operating expenses for research centers or higher education institutes, project salaries, personnel travel expenses, expenses incurred to register intellectual property rights, technological studies, analyses, etc., certain scholarships, infrastructure creation expenses, and prototypes, pilot models, and their evaluation.

IP & Jurisdictional Restrictions

The qualified R&D activity must occur within Mexico. While intellectual property does not have to be retained in Mexico, this factor may be considered by the granting authorities in deciding whether to fund the R&D project.

Other Concerns

Annual application requirements mandate submission of documentation detailing the nature of the qualifying projects.

Mexico extends grant programs to fund R&D projects undertaken in Mexico.



Netherlands

Background

The Netherlands corporate tax rate ranges from 20% to 25%. Two tax incentives are provided to taxpayers engaged in qualified research:

- WBSO: This incentive reduces wage tax and social security contributions for employees engaged in research.
- Innovation Box (formerly the Patent Box).

Nature of Incentives

If a taxpayer is eligible for the WBSO, they will receive a contribution towards the wage costs of employees conducting R&D. The benefit is a reduction in the wage tax and social security contributions paid for R&D employees. In 2010, the R&D deduction is 50% (up to 60% for start-up companies) of the first €220K in R&D wage costs and 18% for the remaining wage costs with a maximum reduction of €14M per taxpayer. To receive the WBSO tax benefits, the taxpayer must receive certification from the Dutch Government in advance.

In 2007, the Netherlands introduced the “patent box,” subsequently renamed the “innovation box” effective January 1, 2010. The innovation box applies to patented and non-patented innovations alike, provided that the development efforts qualify for the wage tax benefits for innovation (WBSO) – described above. There is no cap on the amount that can be allocated to the “innovation box.”

Development costs and losses on the exploitation of IP that are allocated to the “innovation box” can be deducted against the standard 25% tax. Beginning in 2010, the effective tax rate for income attributable to qualifying inventions allocated to the “innovation box” is reduced to 5%, giving 80% corporate tax reduction for qualifying income.

Eligible Industries & Qualifying Costs

WBSO and Innovation Box are open for all industries. R&D means:

- The development of technically new physical products, physical production processes, software, or components thereof;
- Technical-scientific research seeking to explain phenomena in fields, such as physics, chemistry, biotechnology, production technology, and information and communications technology;
- Analysis of the technical feasibility of an R&D project; and,
- Technical research aimed at enhancing physical production processes or software.

Qualifying costs include wages paid to eligible employees for the WBSO tax incentive.

IP & Jurisdictional Restrictions

IP is not required to reside in the Netherlands. To claim the WBSO incentive, the R&D activities must occur within the EU and must be performed by employees on the Dutch payroll.

Other Concerns

To receive the WBSO benefit, the taxpayer must apply for and be granted certification from the Dutch government.

Regarding the Innovation Box, the R&D must result in intangible assets which are self developed or developed for the risk and benefit of the taxpayer.

Marketing intangibles created by the taxpayer, such as brand names, logos, and assets alike, do not qualify for the Innovation Box regime.



Tax incentives for wages paid to employees engaging in research and reduced tax rates for revenue attributable to innovations are available.

Poland

Background

The Polish corporate tax rate is 19%. Since January 1, 2006, Polish law has provided tax incentives for R&D investments in new technology. Additional incentives are available to entities with the status of "Research and Development Centers". Poland also offers a number of cash grant programs.

Nature of Incentives

- *Research Expenditure:* Expenditures incurred to conduct research and development activities are 100% deductible.
- *Tax Deduction and Exemptions for R&D Centers:* Entities having R&D Center status can establish an innovative fund. Monthly contributions to this fund amounting to 20% of revenue are treated as deductible costs. R&D Centers are also eligible for a real estate tax exemption, as well as rural and forest tax exemptions.
- *Technology Incentives:* A company can deduct from its tax base up to 50% of expenditures incurred for the acquisition of new technology in the form of intangible assets such as proprietary rights, licenses, rights under patents or utility models, know-how, etc. In the case of loss, the tax deduction may be used during the subsequent 3 tax years.
- *Grants:* There are also EU and national budget grants available for up to 100% of R&D costs.

Eligible Industries & Qualifying Costs

The following expenditures are eligible for deduction and grants:

- Cost of personnel directly involved in R&D projects
- Depreciation costs for equipment used in R&D facilities
- Consultancy costs and other services linked to R&D
- Direct costs

In order to acquire R&D Center status (given by the Minister of Economy), a company must submit a formal application and comply with the following conditions:

- Minimum net sales revenue of €1.2M for the previous financial year;
- Sales revenue of internal R&D services or industrial property rights accounting for 20% of net revenue;
- No outstanding regulatory liabilities.

Technology Incentives:

The technology incentive is available to all entities operating in Poland and acquiring new technologies, except for taxable persons using the flat rate method and enterprises which carry out business activity in special economic zones. The list of eligible expenditures includes only costs of acquired technological solutions in the form of intangible assets. Therefore, the costs of internal research and development as well as costs refunded from other public aid sources do not qualify for the technology incentive.

In order to use the technology incentive, a technological solution is not allowed to be used worldwide for a period exceeding 5 years, which needs to be supported by an opinion issued by an independent research unit. For audit purposes, the Company should obtain an opinion issued by an independent research unit confirming that at the time of its acquisition the new technological solution had not been used worldwide for a period exceeding 5 years. An enterprise that is the beneficiary of this tax incentive may not grant other entities rights to the new technology before a lapse of 3 tax years starting from the date when the tax incentive was used.

IP & Jurisdictional Restrictions

There are no specific jurisdictional restrictions on intellectual property concerning R&D tax allowances.



Poland offers research grants and Technology Incentives for qualified expenses.

Portugal

Background

The new Portuguese Tax Incentives Scheme for Corporate R&D ("SIFIDE II") for 2011 through 2015 was approved on December 31, 2010. SIFIDE II makes no major changes in the previous scheme (in force between 2006 and 2010), and this continuity is likely to reinforce Portuguese competitiveness in the R&D field.

Nature of Incentives

The incentive consists of a credit against the Corporate Tax ("CT") liability of expenditures incurred on R&D activities (net of any cash grants made by the Portuguese Government to the R&D project). The tax credit is both volume and incremental based, according to the following rates and limits:

- Base Rate: 32.5% of the R&D expenditure during the tax year. New Small and Medium Enterprises ("SME") may benefit, under certain circumstances, from a special increase of 10% of the base rate;
- Incremental Rate: 50% of the incremental expenditure of the period, over the simple average of the two previous tax years, up to €1.5M. Expenses of recruiting PhD's are eligible for an additional 20% and the incremental incentive limit, in these cases, is €1.8M.

Eligible Industries & Qualifying Costs

Eligibility is broad and is not limited to particular industries. The qualified activities could occur anywhere as long as the cost is incurred by a Portuguese company claiming the benefit.

The eligible expenditures include:

- The acquisition cost of new fixed assets connected with R&D activities, except buildings and land;
- Wages of personnel directly involved in R&D activities;
- Allocated costs of directors and professionals participating in the management of R&D institutions;
- Operating expenses;
- Costs of contracting R&D activities from public entities and/or from entities recognized as possessing R&D capabilities;
- Expenditures incurred to raise capital for institutions that perform R&D and contributions to funds aimed to finance R&D;
- Costs of registration and maintenance of patents;
- Patent acquisition costs related to the development of R&D activities;
- Costs of R&D audits;

- Expenses of R&D projects related to the compliance with public contractual obligations.

IP & Jurisdictional Restrictions

There are no specific jurisdictional restrictions on intellectual property concerning R&D tax benefits.

Other Concerns

If the tax liability for the year is insufficient to permit full utilization of the credit, any unutilized tax credit can be carried forward up to six taxable periods.



Portugal extended its R&D tax credit through 2015.

Russia

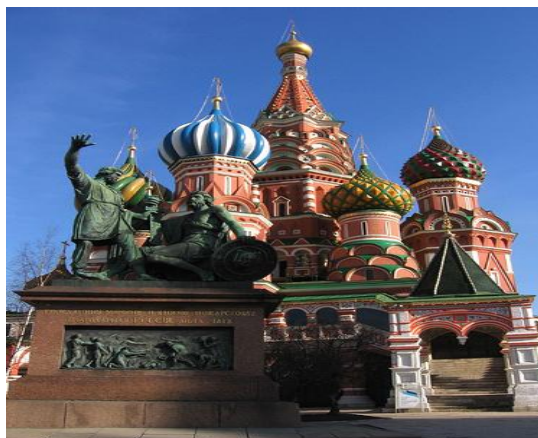
Background

The Russian corporate tax rate is 20%. Russia offers tax incentives for profits tax and a value added tax (VAT) exemption.

Nature of Incentives

- *VAT Tax Incentive:* The sale/transfer of exclusive rights for inventions, utilities models, industrial designs, software, data bases, topographies of integrated circuits, and know how (and any attendant rights for using the above) are exempt from taxation. Full VAT exemption applies to new products and technologies development or conceptual improvements of existing products and technologies.
- *Profits Tax Incentive:* While Russia did not historically allow current deductions for R&D, such expenditures are now currently deductible provided they involve the creation of new or improved products, commodities, works, or services.
- *150% Super Deduction:* Companies conducting R&D activities in prioritized industries can apply for a 150% super deduction to reduce profit taxes for certain R&D expenses stipulated by the Russian government in the period they were incurred. The super deduction can be taken even if the R&D fails to result in a new product, service, etc. Losses for tax purposes resulting from super deductions can be carried forward for 10 years.

Additional incentives exist for property and land taxes (tax exemptions and reductions in tax rates). Regional authorities may also reduce the regional portion of the profit tax for R&D conducted in their region.



Eligible Industries & Qualifying Costs

For profit tax purposes, R&D expenditures must relate to the development of new products or improving production processes, as well as developing new services. Software development activities may qualify, as well.

There is no restriction on the industries that are eligible for R&D tax incentives.

IP & Jurisdictional Restrictions

Russia does not provide any specific restriction on whether the activities need to be carried out within the country or on IP holdings.

Other Concerns

Benefits granted by the Regional authorities require pre-approval and are subject to more stringent requirements.

Russia now offers a 150% super deduction for certain R&D expenditures.

Singapore

Background

The general corporate tax rate is 17% with partial tax exemption granted for the first S\$300K of otherwise taxable income.

Incentive	Description
Section 14D Base Deduction	<p>Section 14D provides an exception to the general rule that new product and process development costs must be amortized, by allowing current deductions for R&D expenditures incurred by a taxpayer in the conduct of its trade or business (including payments to R&D organizations).</p> <p>Eligible expenses include: wages and salaries, materials, and utilities incurred directly for R&D activity. Capital expenditures on plant, machinery, land, or buildings, or on alterations, additions, or extensions to buildings, or in the acquisition of rights arising in or arising out of R&D are specifically excluded. For the tax years from 2009 to 2015, the R&D expenditures need not be related to the entity's existing trade or business unless the R&D is performed outside Singapore.</p> <p>Unused R&D expenditures may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions.</p>
Section 14DA Additional Deduction	<p>Qualifying expenditures incurred during tax years from 2009 to 2013 may, in addition to qualifying for the Section 14D Base Deduction, qualify for an additional deduction of 50% of qualifying expenditures.</p> <p>Qualifying expenditures have been defined to include only staff costs, consumables, and any other expense prescribed by the Minister. This is a narrower definition of qualifying expenses than under Section 14D. Expenditures incurred on R&D performed outside of Singapore do not qualify for the additional deduction of 50%.</p>
Section 14DA Enhanced Deduction	<p>The enhanced deduction is granted for 5 years from tax years 2011 to 2015. Under this scheme, the tax deduction of qualifying R&D expenditures on R&D carried out in or outside of Singapore is enhanced as follows:</p> <ol style="list-style-type: none">A 250% (for Singapore based R&D) or 300% (for non-Singapore based R&D) enhanced deduction is granted on the first S\$400K of qualifying R&D expenditures incurred per year. This is in addition to the 100% ("base deduction") and 50% ("additional deduction" for Singapore R&D only) on qualifying R&D expenditures incurred under Section 14D and Section 14DA respectively. With this enhancement, there will be up to 400% tax deduction available on the first S\$400K of such expenditures incurred;The base deduction and additional deduction remain applicable to qualifying R&D expenditures exceeding the S\$400K incurred per year. (For the tax years 2011 to 2012, the enhanced deduction is granted on the first S\$800K; and for tax years 2013 to 2015, the enhanced deduction is granted on the first S\$1.2M.) <p>The R&D expenditure need not be related to the entity's existing trade or business as long as the R&D is performed in Singapore. In addition, there is the option (in lieu of the tax deduction) to convert up to S\$100K of tax deductions</p>

into a non-taxable cash grant for each qualifying tax year from 2011 to 2013 at the conversion rate of 30% (ie. S\$30K). (For the tax years 2011 and 2012, the conversion caps are pooled to give a combined cap of S\$200K over these two tax years (ie. cash grant of up to S\$60K). There is also the option for companies to defer for effectively a year a dollar of current year tax for every S\$1 of qualifying expenditure incurred for the current financial year, up to a cap of S\$100K.)

Section 14E Deduction

This provision allows super deductions of up to 200% of certain specified qualified expenditures approved by the government for R&D projects carried out in Singapore.

Unutilized R&D expenditures may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions.

The combined total claims under Section 14E and Sections 14, 14D, and 14DA, with respect to the approved project, are capped at 200% of the taxpayer's actual expenditures. However, the 200% restriction does not apply to R&D expenditures that qualify for the Section 14DA Enhanced Deduction.

Eligible Industries & Qualifying Costs

R&D means "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, or processes." Certain activities are specifically excluded from the definition of R&D. For example, internal-use software would generally be ineligible for research tax incentives.

Entities conducting R&D may claim the tax benefits described above regardless of their industry classification.

IP & Jurisdictional Restrictions

If the R&D payments are made by an entity to a R&D organization outside Singapore, a claim for deduction shall be allowed to such entity, provided that the R&D expenditures are related to the entity's existing trade or business and that any benefit that arises from the R&D accrues to the entity itself.

Section 14D Base and Section 14DA Enhanced Deduction: R&D may take place outside of Singapore. The entity does not need to have the legal ownership of the resulting IP in Singapore. Beneficial ownership with the right to commercialize the IP would suffice. No prior approval is required to claim the deduction.

Section 14DA Additional Deduction: Only R&D activities undertaken in Singapore qualify for the Section 14DA deductions. No prior approval is required to claim these deductions.

Section 14E R&D Deduction: The R&D project must be

carried out in Singapore and must receive special approval from the Minister (advance application with the Singapore Economic Development Board is required).

Other Concerns

When expenses exceed trade income, the excess may be carried forward and set off against future taxable profits, provided the shareholders of the company are substantially (50% or more) the same on the last day (i.e., December 31st) of the year of loss and on the first day (i.e., January 1st) of the year of assessment in which the loss is to be set off. A loss carry back for 1 year is allowed, but restricted to a cap of S\$100,000.



South Africa

Background

South Africa's general corporate tax rate is 28% (small business corporations pay taxes at 0% to 28%). South Africa enacted R&D incentives in November 2006.

Nature of Incentives

- *Super Deduction:* South Africa provides a volume-based super deduction equal to 150% of the qualifying operational expenditures incurred directly for purposes of research and development.
- *Accelerated Depreciation:* Capital expenditures incurred to develop/construct assets used in the conduct of qualifying R&D activities qualify for favorable accelerated depreciation:
 - 50% in the year that the asset is used for the first time by the taxpayer;
 - 30% for year 2; and,
 - 20% for year 3.

Apportionment is not required for partial years.

Eligible Industries & Qualifying Costs

Industries that are eligible for the super deduction include:

- Pharmaceuticals
- Software Services
- Software Development
- Design Centers
- Automotive
- Energy & Utilities
- Mining & Natural Resources

Companies carrying on business in an ineligible industry do not qualify for the super deduction, but qualify for accelerated depreciation for capital assets used in R&D.

For R&D expenses to qualify, the activity must be undertaken within South Africa and must be performed for the purposes of:

- Discovery of novel, practical, and non-obvious information; *or*
- Devising, developing, or creating any patentable invention, registerable design, or computer program in which copyright subsists; *or,*
- Knowledge essential to the use of such invention, design or computer program.

Further, these expenses must be:

- Of a scientific and technological nature; and,
- Intended to be used by the taxpayer in the production of their income.

Expenses incurred while conducting the following activities do not qualify as research and development expenditures:

- Exploration or prospecting;
- The management of internal business processes;
- Trademarks;
- Social sciences or humanities; and,
- Market research, sales, or marketing promotion.

All non-capital costs, including supplies, in-house and contract labor, overhead, etc., are eligible for the super deduction.

IP & Jurisdictional Restrictions

Qualifying activities must occur in South Africa. IP must be created in South Africa, but it does not need to be held within South Africa.

Other Concerns

If the business is in a loss position, the benefit may be carried forward until utilized.

Where a research and development company receives funding from another person, the company does not generally qualify for the super deduction. If, however, the funding is from an entity outside of South Africa, the taxpayer can take the full 150% super deduction. In cases where the research and development company assumes the financial risk of loss if the research fails, as well as controlling all critical aspects of the research, i.e., has the authority to stop performing the R&D or change the direction of the R&D, they will generally qualify for the 150% deduction.

If a government grant is received by the taxpayer to fund the R&D expenditures incurred, the 150% deduction is allowed only to the extent that the R&D expenditures exceed twice the amount of such grant.

No prior approval is required to utilize the tax incentive.

South Africa offers a volume-based super deduction and accelerated depreciation for R&D capital expenditures.

South Korea

Background

The corporate tax rate in South Korea ranges from 11% to 24.2% (dependent upon the taxpayer's tax base). South Korea offers a general tax credit for R&D expenditures, plus an additional credit for expenses incurred for investments in R&D equipment.

Nature of Incentives

R&D tax credit for qualified expenditures:

Small-and-Medium-Sized Enterprises (SME):

- The credit equals the greater of either: 1) 50% of current year R&D expenses exceeding the average of the 4 prior years R&D expenditures; or, 2) 25% of current R&D expenditures.
- 30% tax credit computed on current R&D expenditures if the R&D expenditures are incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.
- If a SME purchases certain intellectual property prescribed by the tax law from a Korean third-party resident, the SME is entitled to claim a tax credit in the amount of 7% of the purchase price.

Large Companies (Non-SMEs):

- The credit equals the greater of: 1) 40% of current year R&D expenditures exceeding the average of the 4 prior years R&D expenditures; or, 2) the R&D expenditures for the current year multiplied by the following rate capped at 6%: 3% plus "additional rate" defined as 50% of R&D expense ratio (R&D expense divided by revenue).
- 20% tax credit computed on current R&D expenditures if the R&D expenditures are incurred in relation to R&D activities for the New Growth Engine Industry or Original Source Technology programs designated by the government authority.

Unused R&D credits may be carried forward 5 years (no refund).

Investment Tax Credit for R&D Equipment:

- Credit equals 10% of the total investment amount for certain R&D equipment;
- Includes the costs of machinery, facilities, tools, office machines, telecommunications instruments, testing machines, optical instruments, etc. used in the conduct of R&D activities.

Unused R&D credits may be carried forward 5 years (no refund).

R&D Reserve Deduction

Taxpayers can fully deduct R&D expenses. In addition, a taxpayer can deduct, in year 1, as qualified R&D expenses an amount equal to 3% of its revenue, called the "R&D reserve deduction". After 3 years, the taxpayer is required to add the R&D reserve deduction back into income on a pro-rata basis for the next 3 years (years 4 through 6). However, if the taxpayer's total qualified R&D expenditures during years 1 through 3 are less than the R&D reserve deduction taken in year 1, the taxpayer is obligated to pay interest on the difference.

Eligible Industries & Qualified Costs

R&D activities include research conducted by the certified R&D department of the company and/or qualifying bodies (i.e., universities, colleges, research institutes) to develop technology for the company, trademark design, and development, manpower training, and quality control.

Qualified R&D costs include: labor costs (salaries, wages, bonuses, etc.), materials costs (samples, parts, and raw materials used in the conduct of R&D), rent for R&D equipment, commissions paid to the qualifying body, training costs, and other costs (trademark development costs, design development costs, consulting fees, and quality guarantee costs).

IP & Jurisdictional Restrictions

All R&D expenditures directly related to the R&D activities of the company may be claimed in the tax credit computation regardless of the location of the R&D itself. Any resulting IP does not need to be held by the South Korean company. The R&D tax credits are not allowed for R&D service providers.

Other Concerns

Companies may file an amended return to claim the credit up to 3 years from the date the original tax return was due.

In addition to incremental and volume based credits, an investment tax credit is permitted for R&D equipment.

Spain

Background

The Spanish corporate income tax ("CIT") rate is 30%. Spain applies different tax rates for small companies (25% to 30%), oil companies (35%), savings banks (25%), REITs (18%), and investment funds (1%). Spain offers immediate deduction of qualified R&D expenditures, as well as offering research tax credits for technological innovation.

Nature of the Incentives

- *Volume Credit:* The volume based credit is equal to 25% of the R&D expenses incurred in the tax year.
- *Incremental Credit:* The incremental credit equals 42% of the amount of the current year expenditures exceeding the average of such expenditures incurred in the preceding two tax years. If the taxpayer's current year spend exceeds the average of the prior two years, the taxpayer receives a credit equal to 25% of the current expenses plus 42% of the excess over the base.
- *Personnel Credit:* A 17% credit for wages paid to qualified researchers dedicated exclusively to R&D.
- *R&D Equipment Credit:* An 8% credit for amounts invested in tangible and intangible fixed assets, excluding real estate, used exclusively in the conduct of qualified R&D.
- *Patent Box:* 50% of the income from the assignment of patents is exempt from taxable income.

Credit Limitations: If the amount of qualified R&D expenses for the tax year exceeds 10% of the tax due (after reducing for tax credits), the tax credits may not offset greater than 50% of the gross tax due. If the amount of expenses does not exceed 10% of the tax due (after reducing for tax credits), the credits may offset up to 35% of the gross tax due.

Unused credits may be carried forward for 15 years (no refund).

Spain provides generous research tax incentives.

Eligible Industries & Qualifying Costs

All industries are eligible for R&D tax credits for costs incurred in qualifying activities.

R&D activities include original planned investigation aimed at acquiring new knowledge and greater understanding in scientific or technological fields. Development is considered to be the application of the results of research or of any other kind of scientific knowledge for the manufacture of new materials or products or for the design of new production processes or methods, as well as substantial technological improvement of materials, products, processes, or previously existing methods (including software development).

Qualifying R&D expenses include: wages paid to employees engaging in research, as well as the cost of investments in fixed assets that are exclusively dedicated to R&D activities. Supplies and indirect expenses are excluded.

IP & Jurisdictional Restrictions

In order to qualify for any credit, all qualified R&D must take place in Spain or a member state of the European Union or in the European Economic Area. IP ownership does not affect whether the taxpayer can claim the credit or not.

Other Concerns

Spain also offers an additional incentive in the form of a 40% reduction in social security contributions for certain research personnel.



Turkey

Background

Turkey's general corporate tax rate is 20%.

Turkey introduced significant modifications to its R&D tax incentives by R&D Law No 5746 which is effective beginning January 4, 2008.

Nature of Incentives

- *200% Super Deduction:* R&D expenditures (which are already booked as expenses) are deducted twice from the corporate income tax base.
- *150% Incremental Deduction:* For R&D centers with 500 or more full-time-equivalent workers, an additional deduction against taxable income is allowed equal to 50% of the increase in R&D expenditures from the prior year.
- *Income Tax Withholding Incentive:* 80% (90% for PhD personnel) of wages of R&D or supporting personnel are exempt from tax.
- *Grants Not Considered Income:* Grants received from government entities, voluntary trusts and international funds in support of R&D activities are recorded in a special fund account instead of being classified as income and added to the tax base.
- *Technology Development Zones:* Income earned for software production and R&D activities in Technology Development Zones are exempt from Income and Corporate Tax until December 31, 2023. Income earned from delivered services, like system management, data management, application software, sectoral, internet, mobile and military control applications, are exempt from Value Added Tax until December 31, 2010. Wages of researchers, software workers and R&D workers working in these zones are also exempt from Income Tax.



Eligible Industries & Qualifying Costs

The type of industry has no bearing on the availability of the incentives. Qualification is based solely upon the nature of the activities conducted within Turkey. Activities undertaken to achieve technological innovation qualify for the R&D tax incentives. Software activities are limited to new and original concepts.

R&D expenditures must be incurred within Turkey, and include starting material costs, depreciation and amortization, labor costs (salaries and wages), outsourced benefits and services, duties, taxes and levies on R&D related activities (such as real estate tax on R&D land or customs duty on imported R&D related materials, etc.), and other indirect cost for the conduct of qualified research (such as public utility services, transportation expenses, communication expenses, maintenance and repair expenses, insurance expenses, etc.). Allocated general administrative expenses are excluded.

IP & Jurisdictional Restrictions

IP needs to be held by Turkish entity, and research projects must be approved by Turkish government.

Other Concerns

R&D deductions can be carried forward indefinitely, but the amounts are limited under a complicated formula set forth in the Tax Procedurals Law.

R&D Activities are subject to a Sworn Fiscal Consultant's (SFC) certification. A taxpayer who benefitted from R&D deductions has to give a SFC Certification Report to its tax office certifying that its R&D deductions are computed and applied correctly.

Volume and incremental based deductions, in addition to other generous research tax incentives, are available.

United Kingdom

Background

The corporate tax rate ranges between 21 to 28%.

R&D occurs when a project seeks to achieve an advance in science or technology through the resolution of scientific or technological uncertainties. R&D also includes qualifying indirect activities as part of a project.

Nature of Incentives

The United Kingdom offers two volume-based incentives; one that is available to companies falling within the definition of a Small-or-Medium-Sized-Enterprise (SME) and the other for companies that do not fall within that definition (Large Companies). Generally, an SME company must have fewer than 500 employees and *either* gross revenues of less than €100M *or* gross assets of less than €86M. Affiliated companies are generally considered in determining if a company qualifies as an SME.

- *Large Companies*: 130% super deduction;
- *SMEs*: 175% super deduction (200% after April 1, 2011); and,
- *Cash Credits*: Cash credits are available for loss-making SMEs (up to 24.5% of the qualified expenditure, and up to 25% after April 1, 2011).

Unused tax benefits may be carried forward for an indefinite period to offset against future profits of the same trade unless there is a change in ownership and a change in the nature of the trade within three years of each other.

Currently, there are no caps on R&D deductions for Large Companies. However, there is a cap that restricts the amount of tax benefit available to SMEs, over and above the benefit that would have been available had the company not been an SME, to €7.5M per R&D project.



Capital expenditures are excluded from the super deduction, but a full deduction for capital property used in R&D can be claimed in the year the expenditure is incurred;

rather than being amortized for tax purposes in accordance with the usual rules.

Eligible Industries & Qualifying Costs

The type of industry has no bearing on the availability of the incentive. Qualification is based solely upon the nature of the activities.

Companies may claim the incentive for their expenditures on the following cost categories as long as the total exceeds GBP 10,000 for the year:

- Employing staff who are directly and actively engaged in carrying out R&D;
- Paying a staff provider for the services of personnel who are directly and actively engaged in carrying out R&D (limited to 65% of the payment);
- Consumable or transformable materials used directly in carrying out R&D (broadly, physical materials which are consumed or transformed in the R&D process);
- Power, water, fuel, and computer software used directly in carrying out R&D;
- SMEs can claim 65% of R&D related subcontract costs. Large Companies can only claim subcontract costs if they are paid to a university, health authority, charity, scientific research organization, individual, or a partnership of individuals; and,
- Payments to volunteers for participating in clinical trials.

Expenditures on land and IP are specifically excluded.

Large Companies can claim the relief on costs associated with work that is contracted to them as long as it was contracted by another Large Company or any person not subject to UK tax, e.g., UK Large Company performs research for a US company that is not subject to UK tax. SMEs cannot claim the more advantageous relief on costs that are subsidized or related to activities that were contracted to them, although they may be able to make a claim under the less generous Large Company relief (which means the SME would be unable to monetize losses into cash refunds).

IP & Jurisdictional Restrictions

There is no IP ownership requirement for Large Companies. Currently, SMEs have to own any resultant IP, but there are proposals to abolish this restriction for accounting periods ending on or after December 9, 2009. Large Companies are not subject to any location restriction concerning IP ownership. Additionally, taxpayers are not subject to any restriction with respect to the jurisdiction in which the qualified activity occurs. However, the related costs must be deductible in computing UK taxable profits in order to remain eligible.

Other Concerns

No pre-approval is required to take advantage of the applicable tax benefit.

Taxpayers may file new or amended claims up to the first anniversary of the filing deadline for the tax return. This generally equates to two years from the end of the accounting period.

The UK offers a 130% super deduction for Large Companies and a 175% super deduction for SME Companies.

United States

Background

Corporate taxable income is subject to graduated tax rates, ranging from 15% to 35%.

Tax credits are provided for qualified research expenses, i.e., the tax credit offsets federal income tax and the income tax in states offering research credits.

Nature of Incentives

The US provides two methods for computing the incremental credit for 2010:

- **20% Credit:** The "traditional credit" equal to 20% of the amount of the expenditures exceeding a "base amount" (complicated computation estimating the amount of gross receipts a company would expect to spend on qualified research); or,
- **14% Credit:** The alternative simplified credit (ASC) equal to 14% of the excess of the qualified research expenditures over 50% of the average of the three prior years' expenditures.
- There are also special credits for basic research (e.g., research conducted in universities), payments to energy research consortium, and research relating to orphan drugs.

Computational Adjustments: There are several computational adjustments that significantly reduce the true value of these R&D tax credits:

- While qualifying R&D expenses are currently deductible, taxpayers must reduce the current deduction by the amount of the tax credit. Alternatively, taxpayers' can elect on a timely filed return to take the credit at a reduced rate of 13% for the regular credit or 9.1% for the ASC.
- There is a minimum base amount applicable only to the traditional credit equal to 50% of current qualifying R&D expenditures. The cumulative effect of limiting deductions (or electing a reduced credit rate of 13%) and the minimum base amount, is that the maximum value of the traditional credit is 6.5% of current qualified R&D spending.
- There is no minimum base amount for the alternative simplified credit. If, however, there is no qualified research spending in any one of the 3 prior years, the credit is equal to 6% of qualified research spending in the current tax period.
- The cumulative effect of limiting deductions (or electing a reduced credit rate of 9.1%) for the ASC and the base calculation rules, is that the maximum value of the ASC is less than 9.1% of current qualified R&D spending.

The US offers tax credits to offset current, prior, and future income tax liability.

- Unused research credits can be carried back 1 year and carried forward 20 years (small businesses with less than \$50M in gross receipts can carry back 2010 credits 5 years and forward 20 years);
- Credits are not subject to a cap;
- Generally, research credits are non-refundable; however, in very limited circumstances taxpayers can get a refund for unutilized pre-2006 carryforward credits in lieu of taking bonus depreciation (2008 to 2009).

Eligible Industries & Qualifying Costs

The incentive is intended to benefit all industries conducting qualified research. Consequently, all industries are eligible for the research credit.

Qualifying costs include: wages for in-house labor, 65% of contract labor, and supplies used in the research process. Overhead and capital expenditures are excluded.

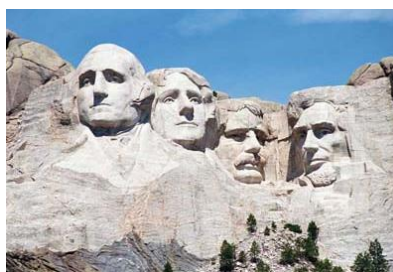
IP & Jurisdictional Restrictions

There is no restriction on the location of any resulting IP. Qualifying activities must be performed within the US, and the related qualifying costs must be incurred by a US taxpayer (although such costs may be reimbursed by a foreign affiliate).

Other Concerns

Taxpayers may amend prior year returns to claim tax credits when the tax year is open for assessment of tax.

Prior approval of projects or activities is not required.



The US R&D Credit has been extended through December 31, 2011.

Summary of Key Criteria

Refundable Credits:

Country	Explanation
Australia	Small and Medium Sized Companies (SMEs) with less than \$5M in gross receipts and \$2M in grouped expenditures qualify for a refundable tax incentive.
Austria	Beginning July 1, 2011, a refundable credit is offered to companies with less than \$20M of gross receipts equal to 45% of the current R&D expenditures if the proposed legislation is passed.
Austria	8% volume-based credit (cash-back premium) on all qualifying R&D-related expenditures (refundable benefit to the extent that the credit exceeds the amount of tax liability). In 2011, the cash-back premium is increased to 10%.
Belgium	Excess tax deductions may be converted into a tax credit refundable after 5 years.
Canada	Federal credits issued to small Canadian controlled private businesses are refundable. Some provincial R&D incentives are also refundable.
France	If research tax credits are not utilized within 3 years, the taxpayer receives a refund for the unutilized credit. The refund rule was modified for 2005 – 2009 providing that unutilized credits were currently refundable, i.e., the taxpayer was not limited to refunds for tax credits that were unutilized after 3 years. Research credits also remain refundable in 2010 for SMEs, new companies, young innovative companies and companies facing financial issues.
Ireland	Unused credits may be carried back 1 accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over 3 years), subject to certain caps.
Singapore	There is an option to convert up to S\$100K of tax deductions into non-taxable cash grant for each qualifying tax year from 2011 to 2013 at the conversion rate of 30%.
United Kingdom	Cash credits are available for SMEs in a loss position.

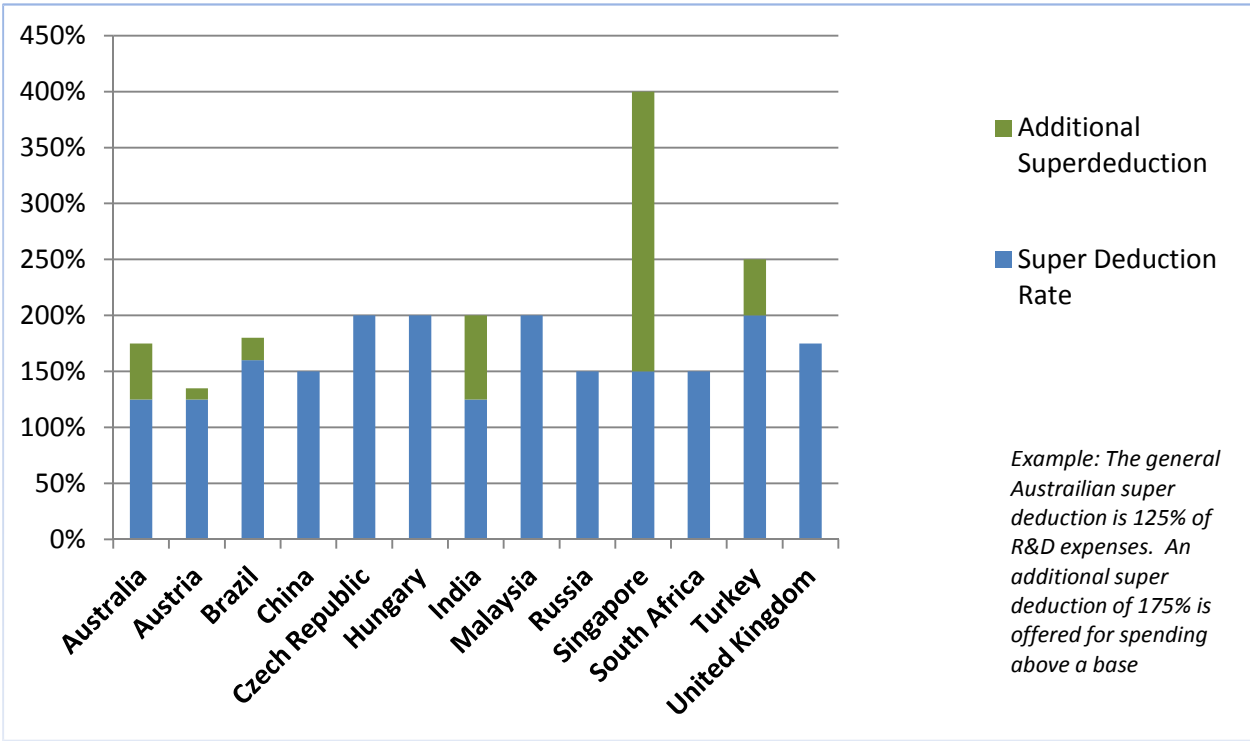
Intellectual Property Must be Retained In the Country:

Country	Explanation
Australia	Intellectual property rights must generally be retained in Australia. This requirement does not apply, however, with respect to IP developed through activities that qualify for the 175% Incremental Concession (International). If there is no DTA, the Incremental Concession (International) is available to the extent such expenses were incurred in Australia.
Belgium	Claimant must retain any associated IP in Belgium to receive the tax benefit.
China	In order to receive the tax rate reduction, any resulting IP rights must be located in China. Approval authorities often consider whether IP will be retained in China in granting approval to take super deductions, but this is not required by law.
Germany	Claimant must retain any associated IP in Germany.
Israel	The location of IP is a factor in evaluating grant applications, but not legally required.
Japan	No provision of the Japanese law addresses where IP ownership should be retained. However, only tax deductible R&D expenses borne by the Japanese entity are eligible for the credit; thus, the general view is that the IP should be located in Japan.
Malaysia	Location of IP is a factor in government pre-approval process, but not legally required.
Mexico	Location of IP is a factor in grant issuance decision process, but not legally required.
Russia	Location of IP is a factor in government pre-approval process, but not legally required.
South Africa	IP must be created in South Africa, though it is not required to be held there.
Turkey	The Turkish entity must be developing a kind of IP (new technology, new product, innovative process, new software, etc.) based on the approval obtained from TUBITAK. Accordingly, the IP needs to be held by the Turkish entity.
United Kingdom	Currently, SMEs have to own any resultant IP, but there are proposals to abolish this restriction for accounting periods ending on or after December 9, 2009. Large Companies are not subject to any location restriction concerning IP ownership.

Qualified Research Activity Must Occur Within the Country:

Country	Explanation
Australia	The activities must be performed within Australia; a maximum 10% of such activities may be carried on outside Australia.
Austria	Activities may occur outside of Austria in a branch or a plant within European Union/European Economic Area. However, the Austrian entity must fund the endeavor.
Brazil	Qualified activities must occur in Brazil.
Canada	Generally research must be undertaken in Canada; however, after February 25, 2008, a limited amount of eligible wages incurred outside of Canada may be claimed for the R&D tax credit.
China	Qualified activities must occur within Chinese borders. However, less than 40% of the activity qualifying for the HNTE incentive may occur outside of China.
France	100% of the qualified activity must occur within the European Union
Germany	R&D activities and costs must be incurred within Germany.
India	All R&D activities must be carried on within India.
Ireland	R&D activities must occur within Ireland or the European Economic Area. The credit is denied when the activities occur in a European Economic Area where a corresponding tax deduction for such expenditures is permitted.
Israel	R&D activities must be carried on within Israel.
Malaysia	R&D activities must be performed within Malaysia.
Mexico	The qualified R&D activity must occur within Mexico.
Netherlands	To claim the WBSO incentive, the R&D activities must occur within the European Union. Since the incentive is related to the Dutch wage tax, it is primarily based on R&D performed within the Netherlands.
Singapore	In order to claim the additional and super deductions, the qualified activity must occur in Singapore.
South Africa	Qualified activities must occur in South Africa.
Spain	All qualified R&D must take place in Spain or a member state of the European Union or in the European Economic Area.
Turkey	Qualified activities must occur in Turkey.
United States	Qualifying costs must be incurred and qualified activities must be performed within the US (though such costs may be reimbursed by an affiliate overseas).

Jurisdictions Offering Super Deductions:



Quick Reference Table

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Australia	Super deduction	1) 125% immediate super deduction for expenses incurred; and, 2) 175% enhanced super deduction is offered for expenditures exceeding a 3-year rolling average. 3) Refundable tax incentives.	Taxpayers must file the Application for Registration of R&D Activities within 10 months of the tax year end.	Small companies with less than \$5M in gross receipts and \$2M in grouped expenditures qualify for a refundable tax incentive. Beginning July 1, 2011, a refundable credit is offered to companies with less than \$20M of gross receipts equal to 45% of the current R&D expenditures if the proposed legislation is passed.	No
Austria	Super deduction and refund	1) 125% super deduction of all qualifying R&D expenditures; 2) 135% incremental super deduction of all qualifying R&D expenditures exceeding the average of the prior 3 years; and, 3) 8% cash-back premium on all qualifying R&D related expenditures. New law proposed to increase 8% to 10% cash-back premium.	No	Limited refunds available. Loss position deductions may be carried forward indefinitely.	No
Belgium	Special deduction	1) A one-time deduction of 13.5% of all R&D Investments or a current deduction of 20.5% of depreciation related to R&D assets; 2) Patent Income Exclusion; 3) Wage Withholding Tax Exemption; and, 4) Elimination of tax and social security withholding requirements for certain companies granted temporary "innovation premiums".	Taxpayer must file a claim for environmental certification though the regional authorities by March 31 st to obtain benefits from the Investment Deduction.	Excess tax deductions may be carried forward indefinitely or converted into a tax credit refundable after 5 years.	No

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Australia	The activities must be physically performed within Australia to be eligible for benefits, though a maximum of 10% of such activities may be carried outside Australia.	Yes	Yes. But this requirement does not apply with respect to IP developed through activities that qualify for the 175% Incremental Concession (International).	No
Austria	Qualified activities must occur inside the European Union or European Economic Area; however, the Austrian entity must fund the research endeavor.	Yes	No	No
Belgium	No	No	Yes	No

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Brazil	Super deduction	<p>1) 160% super deduction of the total R&D expenditures;</p> <p>2) The super deduction increases to 170% of the qualified expenses if the entity increases the amount of researchers by up to 5% in a given year;</p> <p>3) The super deduction increases to 180% of the qualified expenses if the entity increases the amount of researchers by more than 5% in a given year;</p> <p>4) Enhanced R&D tax super deduction for patents is an extra 20% deduction when a patent is registered; and,</p> <p>5) Other excise and withholding tax exemptions available.</p>	Companies must have a tax clearance certificate to qualify for the super deduction.	Unused deductions may not be carried forward or carried back.	No
Canada	Tax credits	20% federal tax credit for all qualifying R&D costs. Enhanced refundable credits (35%) are available for Qualified Canadian controlled private corporations. Tax credits are also available from provincial authorities.	No	Federal SR&ED investment tax credits are refundable on the first \$3 million of annual expenditures if earned by a small Canadian-controlled private corporation. The corporate group of companies must have less than \$800K of taxable income and less than \$50M in taxable capital in prior year to be eligible.	No cap on non-refundable credits.
China	Super deduction and tax exemption	<p>1) 150% super deduction of the qualifying R&D expenses</p> <p>2) Business Tax Exemption for the transfer of qualified technology;</p> <p>3) Corporate tax rate for companies granted High and New Technology Enterprise (HNTE) status is reduced from 25% to 15%;</p> <p>4) Newly established Technology and Software companies receive a tax holiday (and new established HNTEs in certain provinces may receive tax holidays); and,</p> <p>5) Enterprise Income Tax exemptions for certain qualified technology transfers.</p>	Companies must apply for approval with the Science & Technology Bureau, and tax authorities.	Tax losses attributable to R&D super deduction claims can be carried forward up to 5 years.	No
Czech Republic	Super deduction and cash grants	<p>1) 200% super deduction of qualified R&D costs; and,</p> <p>2) Cash grant programs for research and development including CAPEX investment.</p>	Yes	If the deduction cannot be claimed in the year in which it arose (due to a tax loss or the deduction exceeding the annual tax base) the deduction (or remaining part thereof) may be carried forward and utilized within the next three taxable periods.	No

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Brazil	Yes	Yes	No	No
Canada	Generally research must be undertaken in Canada; however, after February 25, 2008, 10% of eligible wages incurred outside of Canada may be claimed for the R&D tax credit.	Yes, generally.	No	No
China	Less than 40% of the activities qualifying for the High and New Technology Enterprise incentive may occur outside of China.	Yes	Yes, for tax rate reduction and IP location may be considered for the super deduction.	High and New Technology Enterprise fields: 1) Electronic Information Technology; 2) Biological & New Medical Technology; 3) Aviation & Space Technology; 4) New Materials Technology; 5) New Energy & Energy Conservation Technology; 6) High Technology Service Industry; 7) Resources & Environmental Technology; and, 8) Transformation of Traditional Industries through High-New Technology.
Czech Republic	No	No	No	No

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
France	Tax credits, cash grants and accelerated depreciation	<p>1) 30% tax credit for the first €100M of qualified R&D expenditures incurred during the tax year; plus an additional 5% of any amount in excess of the €100M threshold;</p> <p>2) Increased credits are available for new credit applicants (50% for the first year of application (subject to limitation), 40% for the second year (subject to limitation), and 30% thereafter); and,</p> <p>3) Cash grants for R&D and acceleration of depreciation deductions for fixed assets used in qualified research.</p>	No	<p>If research tax credits are not utilized within 3 years, the taxpayer receives a refund for the unutilized credit.</p> <p>The refund rule was modified for 2005 – 2009 providing that unutilized credits were currently refundable. Research credits also remain refundable in 2010 for SMEs, new companies, young innovative companies and companies facing financial issues.</p>	No
Germany	Cash grants	R&D intensive entities may receive cash grants from the government, up to 50% of eligible project expenses.	Yes	N/A	No
Hungary	Super deductions	<p>1) 200% corporate income tax base super deduction;</p> <p>2) Salary cost deduction equal to 10% of the salary costs attributed to R&D (up to 70% of the corporate income tax payable);</p> <p>3) 50% royalty deduction when IP is created as a result of R&D; and,</p> <p>4) Qualifying expenditures deduction in the local business tax as of January 1, 2010.</p>	No	Unused salary costs deductions may be carried forward for 4 years.	Salary cost deduction is capped at 70% of the corporate income tax payable.
India	Super deductions	200% super deduction for in-house R&D expenditures.	RD facility must be approved by Department of Scientific and Industrial Research.	If the taxpayer is in a loss situation, unused benefits may be carried forward for 8 years.	No

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
France	100% of the qualified activity must occur within the European Union (as long as the expenditure is part of the company's tax base).	Yes	No	No
Germany	Yes	Yes	Yes	No
Hungary	No	No	No	No
India	Yes	Yes	No	The 200% super deduction is limited to taxpayers in the business of bio-technology or manufacturing and producing products (other than products on the negative list such as alcoholic products, tobacco products, cosmetics, toothpaste, aerated waters using blended flavoring concentrates, confectionary, record players, projectors, office machines and apparatus, steel furniture, safes, latex foam, crown corks and caps for packaging).

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Ireland	Tax credits and grants	<p>1) 25% incremental credit for all expenditures exceeding the "base amount;"</p> <p>2) 25% credit for expenditures incurred for buildings or structures used in the conduct of qualified R&D activities; and,</p> <p>3) R&D grants are also offered.</p>	No	Unused credits may be carried back 1 accounting period and carried forward indefinitely. If there are unutilized credits after the carryback, the taxpayer may apply for a refund (payable over 3 years), subject to certain caps.	Refunds are limited to the greater of the total tax paid by the company for the 10 years prior to the period for which the company is making the claim or the payroll tax liabilities for the specific period in which the expenditures were incurred.
Israel	Tax rate reductions and grants	<p>1) Tax rate reductions through the Alternative Tax Program and Strategic Program; and,</p> <p>2) Several grant programs are available.</p>	Yes, for grants.	N/A	No
Japan	Tax credits	<p>1) The credit equals 8% to 10% of qualifying expenditures for large companies;</p> <p>2) The credit equals 12% of qualifying expenditures for small and medium enterprises (SMEs); and,</p> <p>3) Both SMEs and Large Companies are eligible for an Additional Incremental Credit.</p>	No. But taxpayer has to be a blue form tax return filer.	The carryforward period for unused credit varies from 1 to 3 years depending upon the tax period within in which they were earned.	The credit is limited to 30% of the company's national tax liability before credit is applied. The Additional Incremental Credit is limited to 10% of the company's national income tax liability.

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Ireland	R&D activities must occur within Ireland or the European Economic Area. The credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted.	Yes – Costs must be incurred within the EEA (credit is denied when the activities occur in an EEA nation where a corresponding tax deduction for such expenditures is permitted).	No	No
Israel	Yes	Yes	No, but could be a factor in evaluating grant applications.	No, but could be a factor in evaluating grant applications.
Japan	No	Yes	While the law does not address whether IP ownership must be retained in Japan, the general view is that the IP should be located in Japan.	No

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Malaysia	Super deduction and allowances	1) ITA of 50% on qualified capital expenses for company conducting R&D; 2) ITA of 100% on qualified capital expenses for R&D service providers, 3) 200% super deduction.	Yes	ITA - Any unutilized allowances can be carried forward to subsequent years until fully utilized.	Yes, ITA.
Mexico	Grants	There are no tax benefits available, only grants.	Grant application process	N/A	N/A
Netherlands	Tax rate reduction and tax credits	1) Wage Tax Credit of 50% (can be as high as 60% for start-up companies) of the first €220K in R&D wage costs and 18% for the remaining wage costs; and, 2) Innovation Box reduced tax rate for revenue attributable to patents and innovation.	Yes, for the Wage Tax Credit.	No	Wage Tax Credit has a maximum reduction of €14M per taxpayer.
Poland	Tax deduction and grants	1) R&D Centers can make monthly contributions to an "innovative fund" amounting to 20% of revenue which are then treated as deductible costs. 2) A company can deduct from its tax base up to 50% of expenditures incurred for the acquisition of new technology in the form of intangible assets. 3) Grants.	Yes, to obtain R&D Center status.	Technology Incentives - Carry forward to the subsequent 3 tax years.	No
Portugal	Tax credit	1) Base rate: 32.5% of the R&D expenditure during the tax year. New Small and Medium Enterprises ("SME") may benefit, under certain circumstances, from a special increase of 10% of the base rate; 2) Incremental rate: 50% of the incremental expenditure of the period, over the simple average of the two previous tax years, up to €1.5. Expenses of recruiting PhD's are eligible for an additional 20% and the incremental incentive limit, in these cases, is €1.8M.	No	The tax credit can be carried forward up to six taxable periods.	Expenditures up to €1.5M for the incremental credit. Expenses of recruiting PhD's up to EUR1.8M.

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Malaysia	Yes	Payments for technical services performed outside of Malaysia may qualify for the 200% super deduction when the amount expended is less than 70% of the total allowable expenditure for the super deduction.	No, but could be considered in government pre-approval process.	No
Mexico	Yes	Yes	Factor considered in the grant issuance decision process.	No
Netherlands	Qualified activity must occur within the European Union to claim the Wage Tax Credit.	Yes	No	No
Poland	No	No	No	No
Portugal	No	Yes	No	No

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Russia	Exemption and super deduction	1) VAT Tax - Full VAT exemption for new products and technologies development or conceptual improvements of existing products and technologies; and, 2) 150% super deduction for certain R&D expenses.	Yes, 150% super deduction.	Losses for tax purposes resulting from super deductions can be carried forward for 10 years.	No
Singapore	Super deductions	1) 100% base deduction for qualifying R&D expenses incurred 2) Additional 50% deduction for certain R&D expenses incurred in Singapore 3) Additional 250% or 300% enhanced deduction on the first S\$400K of certain R&D expenses; and 4) 200% super deduction for certain expenses approved by government	Government approval needed for 200% super deduction.	Unutilized R&D expenditures may be carried forward indefinitely, subject to substantial shareholders' test. They may also be carried back subject to certain restrictions. In lieu of tax deduction, there's an option to convert up to S\$100K to cash grant at 30% for tax years 2011-2013.	The combined total claims are capped at 200% of actual expenditures. However, this does not apply to R&D expenditures that qualify for the Section 14DA Enhanced Deduction.
South Africa	Super deductions and accelerated depreciation	1) 150% volume-based super deduction; and, 2) Accelerated depreciation for R&D related capital expenditures.	No	Unlimited carryforward	Certain limitations apply to funded research.
South Korea	Tax credits and reserve deduction	1) Tax credits for SMEs and Large Companies; 2) Investment tax credits; and, 3) 3% deduction of revenue from taxable income.	No	Unused credits may be carried forward 5 years.	Certain limitations apply to Large company tax credits.

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Russia	No	No	No, but location of IP is a factor in government evaluation process.	No
Singapore	Yes - for 200% super and 14DA Additional deductions. No – 14DA Base and 14DA Enhanced deductions.	Yes - for 200% super and 14DA Additional deductions. No – 14DA Base and Enhanced deductions.	No	No
South Africa	Yes	Yes	IP must be created in South Africa, but it does not need to be held within South Africa.	Eligible industries for the super deduction include: 1) Pharmaceuticals 2) Software Services 3) Software Development 4) Design Centers 5) Automotive 6) Energy & Utilities 7) Mining & Natural Resources
South Korea	No	No	No	The R&D tax credits are not allowed for R&D service providers.

Country	Nature of Benefit Available	Income Tax Benefit Generally Available	Specific Pre-Approval Required from Government	Refundable / Carryforward	Cap / Limitations on Benefits
Spain	Tax credits	1) Volume and incremental tax credits for qualified expenditures; 2) Credit for wages paid to qualified investigators; 3) R&D equipment credit used in qualified R&D; and, 4) Patent Box reduces the tax rate for income attributable to patent.	No	Unused credits may be carried forward for 15 years.	If qualified R&D expenses exceed 10% of the tax due (after applying all credits), credits may not offset more than 50% of the gross tax. If the amount does not exceed 10% of the tax due (after applying all credits), credits may offset 35% of gross tax due.
Turkey	Super deduction	1) 200% super deduction for R&D expenses; 2) 150% incremental deduction for increase in R&D expenses for R&D center with more than 500 FTE, 3) Income Tax Withholding Incentives; and, 4) Technology Development Zone benefit.	Yes	R&D deductions can be carried forward indefinitely but the amounts are limited under a complicated formula set forth in the Tax Procedurals Law.	No
United Kingdom	Super deduction and credit	1) 130% volume-based super deduction for large companies; 2) 175% volume-based super deduction for small/medium sized companies (SMEs); and, 3) Cash credits for loss position SMEs.	No	Unused deductions may be carried forward indefinitely, unless there is a change in ownership and a change in the nature of the trade within three years. Loss position SMEs allowed cash credits.	SMEs relief is capped at €7.5M in excess of what their deduction would have been had it been a large company.
United States	Tax credit	Taxpayer's must elect to apply one of 2 incremental tax credits.	No	Unused credits may be carried back 1 year and forward 20 years.	No

Country	R&D Activities Must Occur in Country	Costs Must be Incurred in Country	IP Must be Retained in Country	Industry Eligibility Restriction
Spain	All qualified R&D must occur in Spain or a member state of the European Union or European Economic Area.	All qualified R&D must occur in Spain or a member state of the European Union or European Economic Area.	No	No
Turkey	Yes	Yes	Yes	No
United Kingdom	No	No, but the related costs must be deductible in computing UK taxable profits in order to remain eligible.	Only SMEs are required to retain IP in the UK; however, this rule is expected to be repealed for accounting periods ending on or after December 9, 2009.	No
United States	Yes	Yes	No	No