

Research premium – its role in fundraising

Guest article by KPMG Austria's Michael Petritz, Tax Partner, Oliver Mavher, Tax Manager and Michael Klewan, Audit Senior Manager

It is the time of the year: Annual financial statements must be drawn up. Together with that, Research & Development (R&D) companies have a lot of possibilities to get support by the tax system, but what exactly?

The research premium as an additional funding instrument is often not optimally used in Austria. Especially in case of high-, bio- and future-tech start-ups and scale-ups with main focus on R&D activities, we regularly observe that significant research premium potentials remain unused. As a result, KPMG assists companies successfully to exploit these essential financing sources important for an effective realization of their research activities.

Research premium for start-ups and scale-ups in Austria at a glance

For Austrian start-ups public subsidies and supports are an extremely important source of financing, also compared to the rest of Europe. The Austrian Startup Monitor reported that these funding instruments are in second place for the main sources of funding. Almost a half (48%), have already taken advantage of these and almost every third start-up took advantage of the research premium (31%).

What is the research premium and how to apply for?

Obviously, the research premium plays an important role in fundraising in Austria. But how is the setup of this tax premium and how to apply for it?

In particular, the research premium is a cash-back payment in the extent of 14% of R&D expenditure with regards to internal research & experimental development conducted in Aus-

trian as well as contract research (max EUR 140k per year) could be – also in case of tax losses-applied for R&D activities. Furthermore, the research premium is considered as nontaxable income.

Nevertheless, a positive reviewed project appraisal regarding R&D activities by the FFG (the Austrian Research Promotion Agency) and an application at the tax office is necessary.

In the course of the application process the FFG reviews whether the activities can be classified as Research & Development. According to the Frascati Manual 2015 an "R&D" activity is described as follows: "Research and experimental development (R&D) comprise creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge."

Consequently, five core criteria must be jointly satisfied, in order to classify an activity as an R&D activity, which is eventually applicable for a research premium:

- 1) To be aimed at new findings (novel)
- 2) To be based on original, not obvious, concepts and hypotheses (creative)
- 3) To be uncertain about the final outcome (uncertain)
- 4) To be planned and budgeted (systematic)
- 5) To lead to results that could be possibly reproduced (transferable and/or reproducible)

KPMG uses certain techniques and practical measures to identify R&D activities on the basis of the five core-criteria mentioned above.

Which costs are eligible?

Relevant for the assessment basis of the R&D premium are expenses in conjunction with cur-



rent expenditure, investments in fixed assets, salaries & wages, interest as well as overhead costs attributable to R&D

Non eligible costs comprise among others expenses which are covered by subsidies, marketing costs, as well as non tax deductible expenses. Whereas patent costs will be considered case by case.

How to use the full potential?

KPMG assists companies to present their R&D projects in order to obtain a positive FFG appraisal report and to use the full potential of the research premium via these measures:

- **Business Model:** In-depth understanding of the business activities, e.g. operating activity comprises R&D work only vs. R&D and distribution, or significant portions of R&D work are outsourced.
- **Documentation:** A proper and comprehensive documentation of R&D work performed required.
- **Communication/ Training:** Close cooperation between the R&D teams and the accounting department, training of employees to increase the awareness for proper documentation

- **Reliable database:** Appropriate accounting system (cost accounting, bookkeeping, project management, ...)

- **Know-How:** Experienced and specialized advisor supports successful application of the research premium

Furthermore, KPMG frequently uses the following safeguards to ensure – especially before the start of the R&D activities– that the application of the R&D premiums is going to turn out successfully:

- **"Forschungsbestätigung"** Assessment notice by the tax office that the R&D project fulfills the substantive requirements to apply for the research premium.
- **"Feststellungsbescheid":** In conjunction with in-house R&D and experimental development an assessment notice by the tax office with regard to the assessment basis.
- **"Quick-Check":** Review of the assessment basis of the R&D premium

Please feel free to contact us and our team.

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