Tax incentives for R&D

KPMG in Romania

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R&D is considered a national prority for Romania

Romania recognises that R&D is a national priority and has a critical role in supporting sustainable economic development. The National Strategy for Research, Development and Innovation for the period 2014-2020 has consequently established the ambitious objective of private R&D investment reaching 1% of GDP by 2020.

Hence, Romania has increased the number of R&D tax incentives available, expanding the opportunities for Romanian companies.

However, there is, as yet, only relatively limited guidance on the applicability of the R&D tax incentives. Moreover, this frequently changes, as does the practice of the tax authorities during audits.

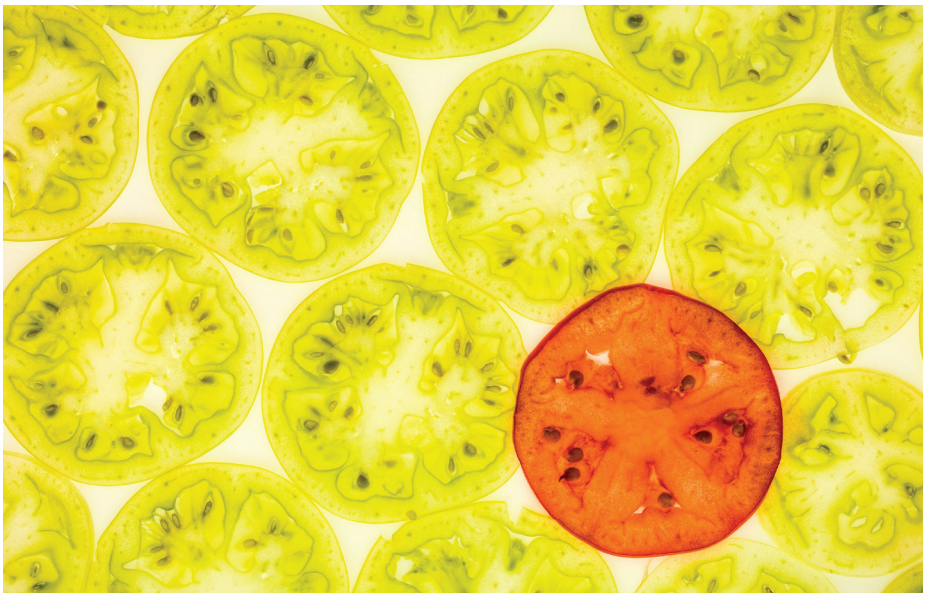
Consequently, close analysis needs to be carried out before a company opts to apply these tax incentives. Considering our extensive experience advising clients on this issue, KPMG in Romania is in a strong position to assist you in relation to the application of the available incentives.

A favourable environment for R&D activities in the EU and globally

Investment in R&D is a key factor which drives and strengthens competiveness, boosts employment, compensates market failures and ultimately contributes to achieving sustainable economic growth and development.

Consequently, many countries around the world are offering generous support both directly (through grants) and indirectly (via tax incentives) for entities which are involved in R&D activities, with the aim of stimulating private investment. The R&D incentives landscape is constantly evolving, as R&D incentive regimes around the world are developing rapidly.

Similarly, research and development activities are a priority within the European Union (EU), and are considered one of the catalysts which will create the right conditions for economic growth and long term development. With the aim of encouraging activities in this area, the EU has declared state aid for R&D and related tax incentives as compatible with the internal market since, in this case, not only do the grants/tax incentives not distort the internal market but, on the contrary, these schemes correct the free market deficit which would otherwise prevent innovative companies from fully capitalising on the results of the R&D activities, ultimately resulting in a decrease in investment in this area.



Consequently, both developed and developing countries within the EU, including Romania and its neighbours, are offering a variety of tax incentives to companies or entrepreneurs which carry out R&D activities: supplementary tax deductions, exemption/decrease of personal income tax for employees, etc.

R&D tax incentives in Romania

Do not let a benefit turn into a risk

Within the context of EU support for R&D activities, Romania recognises that R&D is a national priority and has a critical role in promoting sustainable economic development. The government consequently introduced the first tax incentive for R&D in 2009 (the supplementary corporate income tax deduction).

In August 2016, a new tax incentive was adopted allowing exemption from income tax for individuals involved in R&D activities.

Then in January 2017, exemption from corporate income tax was introduced for entities exclusively carrying out these activities.

However, the guidance on the applicability of the R&D tax incentives is fairly limited and constantly changing, including on the requirements for preparing the necessary supporting documentation. There have been numerous legislative changes, while the practice of the tax authorities during tax audits has often not been consistent. Therefore, it is more important than ever for companies to understand the law and assure themselves that applying for these tax incentives will not generate unacceptable tax risks.

So while organisations should take advantage of these R&D incentives to drive innovation which can create tax savings for their own businesses and also assist in creating growth for the national economy (especially in the context of these activities being supported worldwide), this exercise should not be carried out without a prior in-depth analysis.

Engage the best expertise in R&D tax incentives

Dealing with the constantly evolving fiscal and regulatory environment for R&D activities requires an approach that looks from above and takes into consideration all aspects involved. That is why our services seek to add value and give you confidence in applying for and benefitting from tax incentives without assuming unnecessary risks.

KPMG in Romania can provide an integrated team, which handles advisory and support on R&D tax incentives both from a corporate and an individual tax perspective. KPMG in Romania has also been actively and extensively involved in the promotion and clarification of the legislative framework for the application of R&D tax incentives ever since they were first adopted into Romanian law.

Considering the above and our extensive experience in conducting projects to help clients apply R&D incentives, KPMG in Romania is consequently in a strong position to assist you.

As well as our professionals based in our Romanian offices, KPMG has a Global R&D Incentives practice with a coordinated network of experienced R&D professionals in KPMG member firms around the world. We can consequently help companies worldwide to navigate this changing R&D landscape and enhance their return on investment in R&D. KPMG in Romania's integrated corporate and individual income tax R&D incentives team is part of the Global R&D Incentives practice and hence it has access to experts with many years of experience in identifying and claiming grants and incentives for R&D worldwide.

Since we are in constant contact with our experts from countries in which there is an embedded culture of R&D, KPMG in Romania's integrated R&D tax incentives team has access to tested solutions and innovative ideas to overcome theoretical and practical problems related to R&D tax incentives, which other countries have faced long before Romania had implemented such schemes. We consider our clients to be our partners and are ready to share these verified solutions with you.

Corporate income tax incentive really works

Corporate income tax 50% supplementary deduction of eligible R&D expenses

The first R&D tax incentive introduced in Romania was an additional deduction of 20% (subsequently increased to 50%) of the eligible expenses related to R&D activities.

Companies applying for this incentive must cumulatively meet certain conditions. Firstly, the tax incentives may only be granted for eligible R&D activities ('applied research' or 'technological development') which are relevant for the taxpayer's activity. Secondly, the application of the corporate tax deduction must be documented in a project, which includes certain minimum mandatory elements as detailed within the tax legislation.

How can KPMG help you?

We will let you focus on what you do best: your core business.

We will do the rest:

Hence, we propose a structured and fully comprehensive approach, which allows us to quickly and efficiently identify opportunities that may deliver benefits to your company, both in the short and long term.

Our many years of experience in such projects and co-operation with scientific and technical experts offers our clients an efficient service to help them claim the supplementary corporate tax deduction for R&D.

We offer a practical approach that recognises that your business is unique. Working on site with you, we will support you to help you achieve your goals and develop a tax risk management strategy.

We provide to you:

- The results of our analysis, focused on the activities and expenditures identified as being eligible for the R&D supplementary deduction, in a report.
- Suggestions on possible arguments to support the eligibility of the activities/costs incurred by your company, for the application of the R&D supplementary deduction.
- Review of the documentation available at your premises to support this argumentation.
- Assistance in designing and implementing a procedure to ensure proper documentation.
- Potential areas of risk, as well as suggested changes, in order to ensure alignment with legal requirements.
- Assistance in discussing with relevant authorities, if needed.

Corporate income tax exemption for entities exclusively carrying out R&D activities

Since January 2017, taxpayers carrying out solely innovation, research and development activities, as well as closely related R&D activities can benefit from exemption from corporate tax for the first 10 years of their operations. If taxpayers are already registered, the exemption applies for 10 years from the date of entry into force of the exemption (January 2017).

Up to now, no norms detailing the application of this exemption have been published. However, certain taxpayers might find it more advantageous to apply the already functioning 50% supplementary deduction regime, depending on their circumstances. Of course, this should be analysed on a case by case basis, and we are here to assist you.

R&D Corporate Income Tax incentives – Why should you apply?

- Gives you an advantage over your competitors – increases profit margin or can help reduce the sales price of your goods or services but maintains the same profit margin.
- Reduces the effective tax rate.
- Reduces or eliminates corporate income tax liability.

Personal income tax exemption can help attracting best talent

Personal income tax exemption for individuals involved in R&D activities

In August 2016, the Romanian Government approved an Ordinance which introduced a new tax incentive into the Fiscal Code with the aim of encouraging R&D activities. Salary income earned as a result of carrying out research and development is exempt from personal income tax.

To benefit from the exemption, both employers and employees must fulfill certain conditions and be prepared with supporting documentation. This incentive applies not only to employees of R&D institutes and private R&D centres, but also to R&D activities carried out by employees in firms which do not undertake R&D as their main activity, from a wide range of industries.

Although this incentive may result in cost savings for companies and/or higher incomes for certain employees, it has already given rise to a lot of discussions within the business environment. As KPMG was part of the group which provided feedback from the business community side in defining this tax incentive, we are in a strong position to assist you in relation to the application of this tax incentive.

KPMG is also involved in developing tax technology products tailored to customers' needs, which can be used to facilitate the application of the R&D tax incentives we have explained. Specifically, we can offer technical solutions for data collection and automatic generation (where possible) of some of the documentation and calculations required for the application of the R&D incentives.

How can KPMG help you?

We will analyse and provide recommendations in relation to:

- The relevant activities carried out by our clients and how they match the requirements of the constantly changing legislative framework.
- Project description and required documentation for relevant R&D projects.
- Gross/net income calculations.
- A budget estimate for each project.
- The positioning of employees considered for tax exemption in the Company's organisational chart.
- The content of job descriptions for positions considered for tax exemption.
- Documents required in the case of tax audits.
- Ways to mitigate risks and suggested revisions as well as suggested changes to ensure alignment to legal requirements.

KPMG is very well positioned on the market, with a strong reputation for providing high-quality and integrated services in relation to R&D incentives. We also have extensive experience in helping clients benefit from the income tax exemption for individuals involved in software development related activities, which presents multiple similarities with the exemption for those involved in R&D and which served as model for this incentive.

Contacts

Ramona Jurubiță
Partner, Head of
Tax & Legal Services
rjurubita@kpmg.com

Mădălina Racoviţan
Partner, Head of
People Services
mracovitan@kpmg.com

René Schöb
Partner, Head of
German Desk
rschob@kpmg.com

Daniel Pană
Director
Taxation Services
dpana@kpmg.com

Monica Pascu
Manager
People Services
mpascu@kpmg.com

Cristina Spirescu
Associate Manager
Taxation Services
cspirescu@kpmg.com

KPMG Tax SRL

Victoria Business Park
DN1 Bucureşti Ploieşti, nr. 69-71 Sector 1, Bucureşti 013685 România, P.O. Box 18 – 191

Tel: +40 (372) 377 800
Fax: +40 (372) 377 700

E-mail:kpmgro@kpmg.ro
Internet:www.kpmg.ro

kpmg.com/socialmedia

Download on the App Store
kpmg.com/app

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