

# The Research Tax Credit, Assisting in Innovation



A fiscal system noticeably improved under the latest Finance Laws



## What is the Research Tax Credit?



The Research Tax Credit is a public financial aid programme that makes it possible to increase the competitiveness of companies by supporting their research and development efforts (R&D). Since 2004, it has been made permanent and adapted to better meet the needs of small and medium companies and become a reliable part of an innovative company's financing plan.



## Who can claim it?



**Industrial, commercial and agricultural companies** subject to income taxes, in the categories of industrial or commercial revenues, or to corporate taxes, may claim the Research Tax Credit, provided that they declare actual earnings (normal or simplified declaration), by law or by choice.

***Companies involved in liberal professions are excluded.***



Based on the criteria defined in administrative memo 4-H-5-98 published on 15 September 1998 ([www.minefi.gouv.fr](http://www.minefi.gouv.fr)), "Law of 1901" associations that are involved in profit-making activities and thus subject to commercial taxes fall into the area of application of the Research Tax Credit, if other application conditions are met.



## What expenses are eligible?

Primarily those concerning technological watch, human and equipment resources allocated to research, sub-contracted research, patents and their protection.

## Definition of Research and Development Operations

- **Activities of a fundamental research nature** that involve the analysis of properties, structures, and physical and natural phenomena, in view of organising, through explanatory diagrams or interpretative theories, the findings of this analysis.
- **Applied research** activities that aim at discerning possible applications of the results arising from fundamental research or finding new solutions that allow the company to achieve a specific objective determined in advance. The result of applied research consists of a preliminary product, operation or method model.
- **Experimental development** activities carried out using prototypes or pilot installations, with the goal of collecting all information necessary to provide technical elements for decisions, in view of developing new materials, systems, products, processes or services, or of improving them substantially.



Only a **prototype** that serves to verify research hypotheses experimentally and remove scientific and technical doubts and uncertainties, without having to represent the product in its final industrial state, is eligible for the Research Tax Credit.



**The progress made, the results obtained,** and finally, **the originality of the solution chosen** in terms of technical characteristics and performance may serve as indicators of a research and development activity.



## Eligibility Criteria for Certain Works

To be eligible for a Research Tax Credit, the creation or improvement of a product, process, programme or equipment must show **originality or substantial improvement** that is not simply a result of using techniques in their current states.



The state of existing techniques is made up of all knowledge accessible at the beginning of the works and useable by a tradesperson normally competent in the area concerned, without having to show proof of an inventive activity.



The commercial relevance of the contribution (product, process or service) or the simple fact that this contribution is new or innovative does not suffice to prove that the creative processes are eligible for the Research Tax Credit.



Only operations that aim at doing away with **scientific and/or technological** uncertainties are taken into account. The problems to be solved must be new and must not have already given rise to solutions. These problems, which must not only be addressed during research phases, may be linked to the complexity of the scientific work to be carried out, or result from particular constraints or random scientific or technological events (as opposed to random economic or commercial events).



Scientific and/or technological uncertainty may only be reported after the matter has been thoroughly researched, a bibliography has been established, and after having used and exploited all available knowledge.

The work undertaken must lead to a substantial breakthrough relative to the practice generally in use in the application area and must be based on technical aspects that differ from know-how commonly available in the trade, which are substantiated by the need of calling on scientists or engineers (See appendix III).

The work must not be based on the design or implementation of standard solutions. The notion of R&D operations does not usually cover works that aim at increasing productivity, reliability, ergonomics, or, in the case of information technology, the portability or adaptability of basic and application software. In principle, a project cannot be eligible in its entirety.



In effect, in a development cycle, only operations that can justify R&D work during the start-up and implementation phases may be included in the scope of the Research Tax Credit.

In a general manner, the availability to a user of a product or a service and monitoring thereof by the latter are not considered to be operations resulting from R&D activities.



## How is it calculated?

Designed to **increase the competitiveness of companies by supporting their research and development efforts**, the Research Tax Credit (RTC) system, now fully integrated into the taxation system, has evolved positively for 2006. Its mode of calculation takes into account the sum of two components:



- **The share in volume:** 10% of eligible research expenditures
- **The share in growth** <sup>(1)</sup>: 40% of the difference between the eligible research expenditures for the current year and the average of expenditures for the two prior years (indexed on the increase in prices)



Intended for industrial and commercial companies subject to corporate taxes, the RTC is offset against the corporate taxes for the year in which research expenditures are taken into account. It has a ceiling of Euros 10 million per year.



The RTC excess constitutes a receivable from the State for the company, used for the payment of corporate taxes due in the next four years; as the case may be, the unused fraction will be reimbursed at the end of this period. The receivables reported during the first three years following the creation of a company are immediately reimbursable.

The expenditures eligible are mainly those that involve technological watch, human resources and equipment dedicated to research, sub-contracted research, patents and their protection.



<sup>(1)</sup>: If the share in growth is negative, it does not give rise to a payment and is charged to shares in growth calculated based on expenditures of the five following years. After five years, if it has not been absorbed, it is cancelled.



**With IFTH, your expenditures are worth double their amount**

The IFTH has the status of Industrial Technical Centre, which allows it to be automatically approved by the French Ministry of Research and can allow you to benefit from additional advantages. In fact, expenditures for ITC services are worth double their amount.

Year n	Total R&D Expenditure Eligible	0% of expenditures sub-contracted Reference Case	50% of expenditures sub-contracted to ITC		90% of expenditures sub-contracted to ITC	
		RTC	RTC	Gain/Reference Case	RTC	Gain/Reference Case
2004	0	0	0		0	
2005	0	0	0		0	
2006	100,000	50,000	75,000	25,000	95,000	45,000
2007	200,000	80,000	120,000	40,000	152,000	72,000
2008	250,000	65,000	97,500	32,500	123,500	58,500
2009	300,000	60,000	90,000	30,000	114,000	54,000



**IFTH is considered a design office in the context of producing collection prototypes**

For Textile-Apparel-Leather, certain more suitable provisions<sup>(1)</sup> have been put in place:



- **Internal expenditures** of the company for the design of new products and relative to unsold prototypes and samples; in effect, **collection expenses** (salaries of designers and production engineers responsible for designing it, operating expenses, a flat rate of 75% for employee salaries, and depreciation of fixed assets created or purchased new directly attributable to these operations).



- **Expenses attributable to the design of new collections, for work entrusted to outside designers or design offices** (designers and design offices must be approved by the Ministry of Research to qualify for the RTC).



- Registration fees and protection expenses for drawings and models.

<sup>(1)</sup>: The fraction of the RTC resulting from provisions specific to Textile-Apparel-Leather has a ceiling of Euros 100,000 per three-year period.



**Take advantage of the new IFTH tools to develop your collections**

The different platforms assisting in innovation of the Institute allow you to realise the prototypes for your product developments. **Moreover, as the IFTH is considered a "design office", the expenses arising from these services are taken into account within the framework of the Collection Tax Credit, and this operation may prove of interest.**



For example, why not develop your future colours with the Finishing Engineering platform in Mulhouse?

### **Play to win with the results of the French Measurement Campaign**

For companies that wish to invest in a personalised anthropometric reference database in order to make the proper fit of their products evolve relative to a very specific clientele, the cost of investing in this personalised survey falls into eligible RTC expenditures and, of course, is worth double its amount.

### **For More Information**



For more information, do not hesitate to contact the nearest IFTH Regional Division or consult the following Internet address:

<http://www.recherche.gouv.fr/technologie/mesur/cir/>

