

# France offers the best research tax credit in Europe

As a country's economic standing is in part dependent on its capacity to encourage companies to develop their R&D operations, the French government completed a major reform of its research tax credit (*crédit d'impôt recherche*) in 2008, enhancing its terms for companies and simplifying the surrounding procedures.

## FRANCE'S RESEARCH TAX CREDIT

- Covers 40% of all R&D costs in the first year, 35% in the second year and 30% in subsequent years up to €100 million, and 5% above this ceiling.
- R&D expenditure on work carried out in conjunction with public-sector laboratories is double-counted in the research tax credit base (up to a total of €12 million in subcontracted costs). In practice, this means that the research tax credit can cover 80% of eligible costs in the first year, 70% of costs in the second year and 60% thereafter.
- Double-counting of salaries and overhead costs means that the salaries of junior final-year doctoral and post-doctoral research personnel can effectively be quadrupled in the tax credit base.
- No upper spending limit to the tax credit, which is calculated on the annual volume of all R&D costs (salaries, social security contributions, operating expenses, depreciation, patents, etc.) However, certain restrictions do apply to eligible subcontracting costs.
- SMEs can receive an immediate research tax credit rebate for R&D expenditure incurred in the previous year.

## RESEARCH TAX CREDIT CASE STUDY

Suppose that a company has €5,380,000 in eligible R&D expenses each year and that these expenses break down as follows: €3,000,000 for the research team, €500,000 to hire junior final-year doctoral and post-doctoral research personnel, €1,000,000 for work subcontracted to group subsidiaries, €800,000 for work subcontracted to a public-sector research organization, €50,000 for depreciation of R&D equipment, and €30,000 in miscellaneous other eligible costs.

In the first two years, eligible expenses for the junior final-year doctoral and post-doctoral research personnel will be quadrupled when calculating the tax credit base (200% of salaries and social security contributions plus 200% of overhead expenses).

Eligible expenses for work subcontracted to public-sector research organizations will be double-counted throughout the R&D period.

In this example, the research tax credit granted would be €3,687,000 the first year, €3,226,125 the second year and €2,390,250 the third year.

RESEARCH TAX CREDIT WORKING EXAMPLE

	2011	2012	2013
<b>Total R&amp;D expenses</b>	<b>€5,380,000</b>	<b>€5,380,000</b>	<b>€5,380,000</b>
Salaries and social security contributions for junior final-year doctoral and post-doctoral research personnel* (double-counted over first 24 months)	1,000,000	1,000,000	500,000
Salaries and social security contributions for other research personnel	3,000,000	3,000,000	3,000,000
R&D subcontracting costs invoiced by companies within the group	1,000,000	1,000,000	1,000,000
R&D subcontracting costs invoiced by public-sector research organizations (double-counted each year)	1,600,000	1,600,000	1,600,000
Fixed allowances for overhead expenses: - 50% of eligible personnel costs - 200% of junior final-year doctoral and post-doctoral research personnel costs over the first 24 months, and - 75% of cost of depreciating R&D fixed assets	2,537,500	2,537,500	1,787,500
Depreciation of R&D equipment	50,000	50,000	50,000
Other eligible costs	30,000	30,000	30,000
<b>Total expenses eligible for research tax credit</b>	<b>€9,217,500</b>	<b>€9,217,500</b>	<b>€7,967,500</b>
<b>Rates</b>	<b>40%</b>	<b>35%</b>	<b>30%</b>
<b>Amount of research tax credit which can be claimed</b>	<b>€3,687,000</b>	<b>€3,226,125</b>	<b>€2,390,250</b>

\*Junior final-year doctoral and post-doctoral research personnel ("jeunes docteurs"): employees either holding or in the final year of study towards a research doctorate (PhD) or equivalent, in their first permanent employment contract at a company whose workforce must not have been downsized since the previous year.

RECENT TAX SAVINGS BY COMPANIES IN FRANCE

- Over 15,700 companies claimed a research tax credit for R&D spending incurred in 2009 – 2,400 more than in 2008 (when the research tax credit was reformed) and 5,900 more than in 2007. In 2009, over 2,100 of the companies filing for the research tax credit were foreign-owned.
- So far, €4.7 billion has been refunded to companies for research spending incurred in 2009, while in the same year €6.2 billion was refunded for research spending incurred in previous years.

(Source: French Ministry for the Economy, Finance and Industry, 2010)