FRANCE’S RESEARCH TAX CREDIT

A VERY GENEROUS SCHEME

- **Open to all companies**
  All companies incurring R&D expenses are eligible to receive France’s research tax credit, regardless of their size, business sector and nationality.

- **A high rate**
  The tax credit covers **30%** of all R&D expenses up to **€100 million**, and **5%** above this threshold.

- **Larger tax credit base**
  Covers all R&D spending: Salaries, social security contributions, amortization and depreciation allowances, operating costs, subcontracting, patents and monitoring.
  The scope of SME spending eligible for the research tax credit has been extended as of 2013 to cover innovation expenses arising from designing prototypes, as well as pilot plants for new products. These expenses are now included in the research tax credit base, at a rate of **20%** (up to **€400,000** a year).

- **Powerful incentive**
  France’s research tax credit is also a powerful incentive for research partnerships, as all expenditure contracted out to public-sector bodies is double-counted, thereby effectively doubling the research tax credit (up to **€12 million**). Salaries paid to junior final-year doctoral and post-doctoral research personnel on their first permanent contract are quadruple-counted when calculating the research tax credit for two years.
  Moreover, the research tax credit can be combined with the “innovative new companies” scheme (*jeunes entreprises innovantes* – JEIs), which provides for reduced taxes (corporate tax and local taxes) and social security contributions over an eight-year period.
  Revenues from intellectual property rights (royalties and capital gains on the sale of patents, patentable inventions and manufacturing processes, as well as expenses incurred to improve patents and patentable inventions) are subject to a reduced corporate tax rate of **15%**.

- **Rebate possible from the end of the first year**
  SMEs, innovative new companies, startups and ailing companies may ask for an immediate research tax credit rebate.

- **Long-term stability**
  The research tax credit and “innovative new companies” schemes have been fixed for five years to provide businesses with visibility and legal security.
A KEY FACTOR IN FRANCE’S INVESTMENT ATTRACTIVENESS

More than 2,000 foreign companies operating in France were beneficiaries of the research tax credit in 2010, while 29% of business enterprise R&D expenditure (BERD) in France is made by foreign-owned subsidiaries.

(source: French Ministry for Education / Ministry for Higher Education and Research, 2012)

Between 2008 and 2012, 199 new R&D investments were confirmed in France by foreign companies. (source: IFA 2012 Report)

Three-quarters of foreign business executives polled by the 2012 TNS Sofres-IFA survey cited innovation and R&D operations among the reasons for France’s investment attractiveness.

France’s research tax credit in the words of foreign investors:

“The reason for selecting France for R&D is the friendliness of the government agencies and the community in welcoming us, and obviously the tax credits for an R&D investment.”

Chuck Davis, R&D Vice President, Kraft Foods Europe, referring to their new R&D center in Saclay set up in 2010.

“One of the reasons why we chose France is that the French government also places a significant amount of importance on the efforts around innovation and research and development. A good example of this is France’s research tax credit. During the last 10 years, we have invested more than €200 million in research and development.”

Stefano di Lullo, President, Cardiac Rhythm Management, Sorin Group.

“France is a very technologically developed country, with compelling tax advantages for R&D and innovation investments, which are key points for our business. In France, we have 300 people working at three production sites.”

Timo Luukkainen, President and CEO, Ensto.

Selected companies that made R&D investments in France in 2012:

• The Italian company Telespazio is to set up its EarthLab® R&D pilot center at Aerocampus (Aquitaine region), which specializes in the provision of aerospace maintenance training. The center will include a research unit and a training center for satellite image analysts. The EarthLab® project is expected to attract €14 million worth of investment over the next six years and to create 40 jobs.

• American group Itron Inc. has announced the expansion of its subsidiary Itron France, which specializes in the design of mechanical water meters and remote meter reading systems. Based in Bourgogne (Burgundy), the company intends to boost its production capacity and step up its R&D activities thanks to an investment of €3.7 million. Fourteen employees have already been recruited on the production side and around 10 engineers and technicians will be brought in to consolidate the firm’s R&D activities.

• American microprocessor manufacturer Intel is to expand its R&D operations at the Sophia Antipolis technology park (Provence-Alpes-Côte d’Azur). “Intel employs around a thousand people in France, of whom 80% are involved in R&D”, notes Mr. Stéphane Nègre, CEO of Intel France. Several dozen people are being recruited for its various sites in France.
Chinese group Haier, which makes household appliances, has opened a new R&D center near Lyon to develop a comprehensive range of heating, cooling and hot-water production systems for European markets. The group has announced that it plans to invest €1 million at the site, which will employ 12 people by the end of 2013, and around 30 in three years’ time.

FRANCE WELL PLACED IN THE GLOBAL COMPETITION

International rankings

• France is the country that offers the most generous R&D tax treatment for companies [source: Science, Technology and Industry Outlook, OECD 2012]

• France has the lowest effective corporate tax rate in Europe for R&D operations, taking into account differences in tax bases, depreciation allowances, tax exemptions and tax credits [source: KPMG, Competitive Alternatives, 2012]

• The 8th baromètre européen du financement de l’innovation (International Innovation Funding Survey) conducted by Alma Consulting Group in 2012, ranks France’s research tax credit as the leading innovation funding measure for European companies.

• The 2011 rankings of the world’s most attractive regimes for R&D tax incentives compiled by Taj (a member of Deloitte Touche Tohmatsu Limited) puts France in first place for the effectiveness of its research tax credit, its ease of use and the broad base of expenditure it covers.

A research- and innovation-friendly business environment

• 71 innovation clusters, open commercial ecosystems for companies, public education and training bodies, and research laboratories to conduct collaborative projects in cutting-edge and key technology sectors. More than 600 foreign companies doing business in France are already members of an innovation cluster. [source: French Ministry for the Economy and Finance (DGCIS directorate), 2012]

• Gross domestic expenditure on R&D (GERD) in France amounted to 2.24% of GDP in 2011, a higher proportion than in the United Kingdom (1.77%), and higher than the European Union average (1.93%). [source: OECD, Main Science and Technology Indicators, 2012]

• France is ranked second in Europe and sixth in the world for the number of international patents filed. [source: WIPO/INPI, June 2012]

• With 9.1 researchers for every 1,000 employees, France is ahead of the United Kingdom (8.3) and Germany (7.9), as well as the European Union average (6.9). [source: OECD, Factbook, 2012]

• 21.5% of 20-to 29-year-olds in France are science and technology graduates, after Finland (24.2%), but ahead of the United Kingdom (18.7%) and Germany (14.8%), and well ahead of the European Union average (15.2%). [source: Eurostat, 2013]
Calculating financial and tax incentives for R&D operations

Simulation #1

Large corporate in the IT sector with 2,000 employees (including 580 in R&D positions) with annual R&D spending of €63.4 million and subcontracted research (€4 million to the private sector, and €4 million to the public sector).

France's research tax credit is the most generous for the company in this simulation, offering net incentives of €27 million on annual R&D spending of €63.4 million. [source: Taj, member of Deloitte Touche Tohmatsu Limited]

Simulation #2

A medium-sized enterprise in the IT sector with 132 employees (including 42 in R&D positions) with annual R&D spending of €11.33 million and subcontracted research (€4.75 million to the private sector and €3 million to the public sector).

France's research tax credit is ranked in 1st place, offering €4.7 million of incentives on €11.33 million of annual R&D spending. [source: Taj, member of Deloitte Touche Tohmatsu Limited]