

RTC in France (Tax Credit on research activities)

INTRODUCTION

The “CIR” (Crédit d’Impôt Recherche) is a tax credit intended to support the companies’ R&D activities.

Today, 30% of eligible R&D expenditure, up to a limit of 100 million euros, may be financed by tax relief. Expenditures in excess of 100 million euros can attract tax relief of 5%, and, since 1st January 2011, start-up enterprises may obtain 40% tax credits on their R&D expenditure for the first year, and 35% for the second year.

The CIR tax credits offer substantial advantages to companies which seek to reduce the financial risks related to “up-stream” research activities, and/or wish to increase cooperation with R&D institutions in the public sector.

This system is available for French and European firms. Especially, it is available for French subsidiaries of any foreign firms.

DIFFERENT STAGES IN R&D (THE FRASCATI MANUAL):

The three stages are defined as

- Fundamental, scientific research, relating to experimental and theoretical research into new knowledge
- Application research relating to new processes for a defined project
- And experimental development to enhance existing processes and materials

ELIGIBILITY OF R&D EXPENDITURE:

The CIR applies to “up-stream” R&D activities, well before the product is launched on the market. The tax credits may be applied to any of the above R&D stages as long as it can be shown that the R&D activities go beyond existing knowledge and techniques.

A key factor for determining eligibility is the extent to which the R&D activity can be distanced or separated from the commercialisation of a product or service.

Consequently, R&D relating to existing products, engineering studies, tooling, training and professional norms or standards would not be eligible for a tax credit.

RECOGNIZED EXPENDITURE:

A wide range of expenditure may attract the tax credits, so long as they fall within the three stages of R&D noted above.

Since 1st January 2011, operating expenses are assessed on a fixed basis of 50% of the wage costs, and/or 200% of the wage costs for doctorate holders, to which is added 75% of the depreciation of the fixed assets affected by the R&D activity.

Sub-contracted R&D costs are eligible for the tax credit, if the sub-contractor or specialist is recognised and registered with the authorities. The tax credit is doubled when R&D is sub-contracted to public research institutions, independent industrial technical centres or universities



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Example of a company that claims RTC for the first time

	Incurring costs	Eligible costs
Depreciation of R&D equipment	50,000 €	50,000 €
Salary costs of doctors hired less than 24 months ago (gross salary and social contributions)	80,000 €	160,000 €
Other R&D employees' salary costs (gross salary and social contributions)	200,000 €	200,000 €
Other operating costs for R&D (valued as 200% of doctors' salary costs and 75% of other employees' salary costs) (lump sum)		297,500 €
<i>Total of costs</i>	<i>330,000 €</i>	<i>707,500 €</i>
Total of RTC granted (50%) - to be offset against corporation tax payable or paid		283,000 €

OTHER PUBLIC ASSISTANCE GRANTS FOR R&D

Any financial assistance received from the government (national or local) and/or from the European Union must be deducted from the eligible base for calculating the CIR

TAX CREDIT SETTLEMENT:

The Research Tax Credit (RTC) is offset from the last on-account tax payment. For small-to-medium sized companies (those with less than 250 employees), the tax credit which was not allocated is immediately reimbursed on demand.

ADMINISTRATIVE POINTS:

- At the end of each fiscal year, the supporting documentation for a tax credit must be provided together with the completed return (Form #2069A)
- Adequate working papers indicating the link between the accounting records and the R&D activities (analysed under the three eligible criteria), the methods of imputation applied, and the advancement of the R&D projects should be made available to the authorities, and be certified by the company's auditors.
- A technical file is compulsory for fiscal reasons. Do not hesitate to contact your Chartered Accountant concerning this point.
- Other fiscal measures for R&D are also available for investors in France, like the status of young innovating companies. Do not hesitate to contact your Chartered Accountant regarding this point.

**Your Chartered Accountant
is your best consultant.
Don't hesitate to contact us!**

