



France caters to innovative companies and offers the best research tax credit in Europe

The French Government has three objectives :

- improve France's fiscal competitiveness
- consolidate R&D activities
- make France an attractive country for innovation

Tax incentives have become a key element of public policy in favor of research and innovation. According to OECD figures, 20 OECD member countries had introduced research tax credit measures in 2007, compared with only 12 countries in 1995.

In France, the research tax credit (Crédit Impôt Recherche – CIR) represents a reliable element of an innovative company's financial plan, and is particularly well adapted to the needs of SMEs. This tax incentive enables companies to increase their competitiveness by supporting their Research & Development efforts.

The French Government has undertaken a major reform of the research tax credit by means of the Financial Law of 2008, which is in line with the "Lisbon strategy" (knowledge-based economy) and the "Barcelona objective" (3 % of total GDP dedicated to R&D).

What you should know about the research tax credit

Definition: The research tax credit is a corporate tax incentive based on R&D expenditure incurred by any company located in France, regardless of sector or size.

- All industrial, commercial or agricultural businesses, as well as associations under the Law of 1901 (under certain conditions), are eligible for the research tax credit.
- The research tax credit is either deducted from annual corporate tax (Impôt sur les sociétés – IS), or reimbursed after a period of three years. Certain innovative SMEs (Young Innovative Companies, "gazelles" or new companies) can receive their research tax credit in cash at the end of their first year of business (if the company has not already deducted it from its corporate tax).
- Eligible expenditures include manpower and equipment dedicated to in-house R&D activities, subcontracted research activities, technological surveillance, and patent filing and protection.
- Shortened advance approval times (rescrit fiscal) allow companies to obtain confirmation of their R&D eligibility from the Ministry of Research and Advanced Education before the launch of a research project. The ministry has three months to respond, after which time eligibility is assumed. As of 2010, companies will be able to directly request the services of the French Ministry of Research or the public organization Oseo Innovation with no tax administration required.

+Point The research tax credit applies to all sectors of activity, including new sectors and even traditional sectors that are not generally targeted by R&D incentives, for example the pharmaceutical and automotive industries.



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Reform: changes concerning R&D expenditures incurred in 2008

The Financial Law (Loi de Finances) aims to reform the research tax credit, making it more favorable and simplifying procedures.

- ✓ Elimination of the 16 million euro research tax credit ceiling. A new, more favorable limit has been introduced: expenditures exceeding 100 million euros are eligible for a research tax credit at a reduced rate of 5% instead of 30%.
- ✓ Effective January 1st, 2008, the research tax credit is calculated on the basis of the amount ("volume") of R&D expenditure, and is no longer based on increases in the level of expenditure ("increase").
- ✓ Research tax credit rates increased to 30% from the original 10% applicable to the "volume" of the total R&D expenditure for the first category up to a limit of 100 million euros.
- ✓ An "introductory bonus" is available for companies applying for research tax credit for the first time, or for those that have not received the tax credit within past five years. This bonus provides a research tax credit rate of 50% for the first year and 40% for the second year.
- ✓ The waiting period for advance approval (rescrit fiscal) by the ministry was reduced to three months (from the original six months) effective March 1st, 2008.
- ✓ Effective January 1st, 2008, companies receiving research tax credit can request that the tax authorities officially confirm the eligibility of their R&D expenditures. In the event of any errors, omissions or anomalies, companies will be requested to rectify their situation, but will not incur any penalties.

+Point By making advance approval systematic, and reducing the delay for advance approval to 90 days, the French Government is responding to a key business issue for companies: predictability. Advance approval will enable companies to avoid systematic tax inspections after filing their returns.

Increased support

The amount of research tax credit has increased from 1.4 billion euros in 2006 to approximately 3 billion euros in 2008. The twofold increase in the budget for research tax credit taken on by the French Government is an indication of its strong support of a knowledge-based economy.



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Practical example

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Hypothesis

A company undertakes new R&D activities in 2008 and incurs the following expenditures :

- Salaries and social security contributions for doctors : €500,000
- Salaries and social security contributions for other research staff : €3,000,000
- Costs related to subcontracting :
 - invoiced by companies within the group : €1,000,000
 - invoiced by public research organizations : €800,000
- Depreciation of R&D equipment : €50,000
- Other costs : €30,000

Total direct R&D expenditures : €5,380,000

	2008	2009	2010
Total R&D expenditures	€5,380,000	€5,380,000	€5,380,000
200 % of salaries and social security contributions for doctors* for a period of 24 months	1,000,000	1,000,000	500,000
Salaries and social security contributions for other research staff	3,000,000	3,000,000	3,000,000
Subcontracting costs invoiced by companies within the group	1,000,000	1,000,000	1,000,000
200 % of subcontracting costs invoiced by public research organizations	1,600,000	1,600,000	1,600,000
Fixed allowance for overhead expenses : 75 % of eligible staff costs, 200 % of doctorate staff costs for a period of 24 months	3,250,000	3,250,000	2,625,000
Depreciation of R & D equipment	50,000	50,000	50,000
Other costs	30,000	30,000	30,000
Total expenditures eligible for research tax credit	€9,930,000	€9,930,000	€8,805,000
Rates	50%	40%	30%
Amount of research tax credit	€4,965,000	€3,972,000	€2,641,500

***Doctor:** Person possessing a research doctorate (PhD) or the equivalent, who has a first long-term work contract with a company that has not reduced the number of its employees compared with the previous year.



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Benchmark

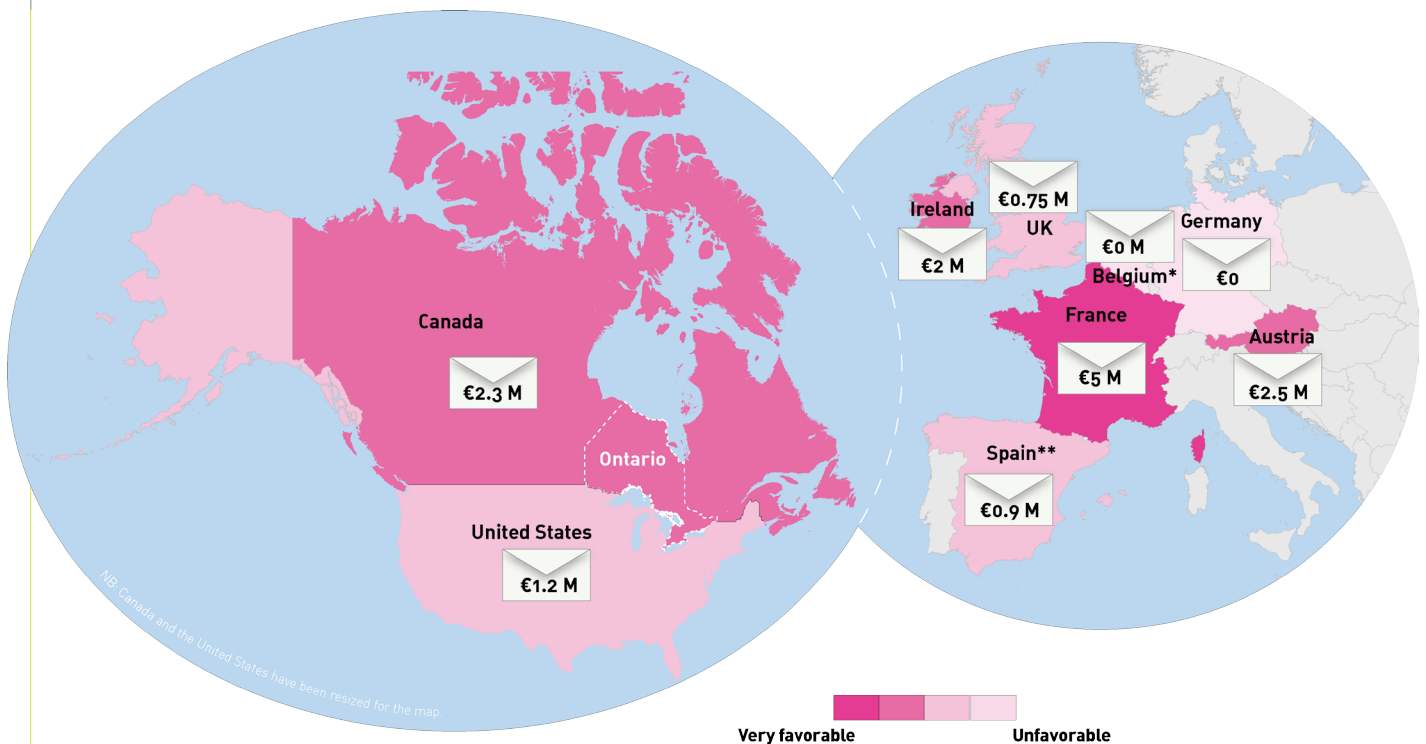
Benchmark of R&D tax incentives : France offers the most favorable R&D tax incentive in OECD

An increasing number of countries are introducing R&D tax incentives. The type of incentive varies from country to country, but this often takes the form of immediate depreciation of R&D overhead costs, and tax reductions or allowances on taxable income.

The following map shows the estimated amounts of research tax credit or equivalent tax incentives available to a company, depending on the various tax incentives on offer in the different countries. This comparison does not take into consideration financial support for R&D, other than tax incentives in the various countries.

Focus on some OECD countries in 2008

It is assumed that a major company with a total of €10 million in R&D expenditures for 2008, including costs for R&D personnel, performance and subcontracting, has determined its expenditures in compliance with each country's specific regulations. It is also assumed that the company is subject to a 2M€ corporate tax in 2008 and is applying for Research Tax Credit for the first time.



France understands that a country's economic position is directly related to its capacity to encourage companies to develop their R & D activities, which is why it offers the most favorable R&D tax incentives in Europe.

NOTE(S) * In Belgium, the Research Tax Credit equals to 13.5% of investment costs only.

** In Spain, Research Tax Credit cannot exceed 45 % of corporate tax.



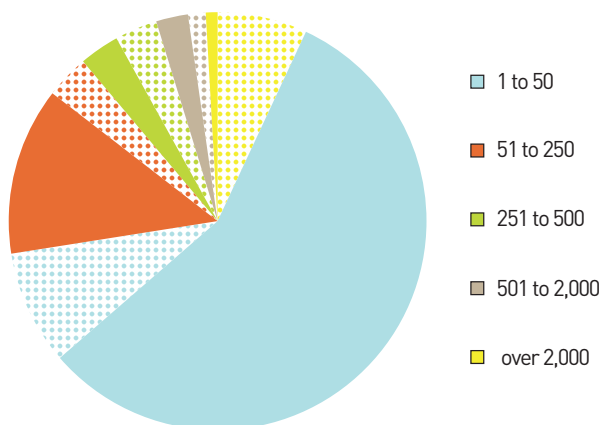
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Typical profile

Typical profile of a company eligible for research tax credit

The majority of companies receiving research tax credit are not labour-intensive. eighty-six percent have less than 250 employees. R&D spending represents an average of 19% of the total expenditure incurred by companies eligible for the research tax credit; 55% of the total research credit was granted to these smaller companies.

Distribution of companies receiving research tax credit in 2005 according to labour-force size (including subsidiaries)



Source : Report on The Research Tax Credit in 2005, Ministry of Research and Advanced Education, May 2007.

“ This tax incentive is a key factor for our choice of projects and future R&D investments. The research tax credit remains the most favorable means of financial support for an R & D center in France. The new method of calculation appears more favorable and above all easier to set up, since there is now no requirement to give an account of work for years N-1 and N-2.”

Stéphane Boudaud, Director of France, CSR Telecoms.

+Point The 2008 research tax credit is very favorable for SMEs, since for a large majority, their total R&D expenditure is eligible (up to a limit of 100 million euros per year).

For more information concerning the research tax credit:

IFA information sheet : <http://www.invest-in-france.org/international/en/the-best-research-tax-credit-in-europe.html>

Research tax credit guide 2008 : http://media.education.gouv.fr/file/CIR/83/8/cir2008_22838.pdf

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