# Making Tax Incentives Count

## Navigating the RD&I policy maze


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# Agenda

**01** Country and policy perspectives

**02** Company perspectives

**03** What this means for you

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# The purpose of RD&I tax incentives is to increase private investments in innovation.

# Growth depends on private RD&I investments

U.S. National Bureau Of Economic Research in 2020:

***Social rate of return of private R&D investments is at least 67%***

Frontier economics (commissioned by U.K. government) in 2023:

***Social rate of return of private R&D investments is at least 36%***

Image source: ASML

# Growth depends on private RD&I investments

EU growth accounting report in 2016:

***More than 1/3 of GDP growth due to investments in intangible assets***

DIW (German national investment bank) in 2015:

***Social rate of return of private R&D investments is between 40% and 90% (depending on discount rate chosen)***

Image source: ASML

# Private RD&I maintains a rich ecosystem

EU RTOs obtain between 30% and 50% of their revenue through private funding.

The funding is either contract research or participation in public-private partnerships.

**Governments get up to twice the capacity they pay for.**

# Two types of tax incentives

## Input

Tax credit on R&D expenditures

Exemption/reduction of income taxes

Increased deduction of R&D expenditures

Accelerated/flexible write-off on R&D facilities

## Output

Innovation income deduction

# Tax credit on R&D expenditures

## How it works

Government pays a percentage of R&D expenditures directly to the company as a tax credit, even if the company makes a loss (i.e., pays no corporate tax).

## Example incentives

Austria:

14% tax credit on in-house and outsourced R&D expenditures

France:

30% tax credit on outsourcing with recognized research institutes

# Reduction of income tax

## How it works

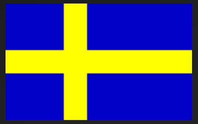
Companies are exempt from paying income tax on the wages of employees working on R&D projects.

This is often granted on a project basis. The effect is to reduce the gross labor costs in R&D.

## Example incentives

Belgium:

80% reduction of income tax withholding for eligible employees



Sweden:

20% reduction of income tax withholding for eligible employees

# Increased deduction of R&D expenditures

## How it works

Companies can deduct a multiple of their R&D expenditures from their profits. This reduces the corporate tax and amounts to a tax credit that is a multiple of the corporate tax rate, provided the company makes enough profit.

## Example incentives

Poland:

200% deduction of R&D costs

Greece:

200% deduction of R&D costs

# Increased or flexible deduction

## How it works

Capital investments on R&D facilities can be written off immediately or at a time of your choosing.

Effectively, this results in a tax credit equal to the corporate tax rate, provided the company makes enough profit.

## Example incentives

U.S.:

Immediate deduction of R&D expenditure (federal)

Lithuania:

R&D assets can be written off in two years

# Innovation income deduction

## How it works

Revenue that can be linked to company IP (usually only patents) is subject to a different, lower, corporate tax rate.

## Example incentives

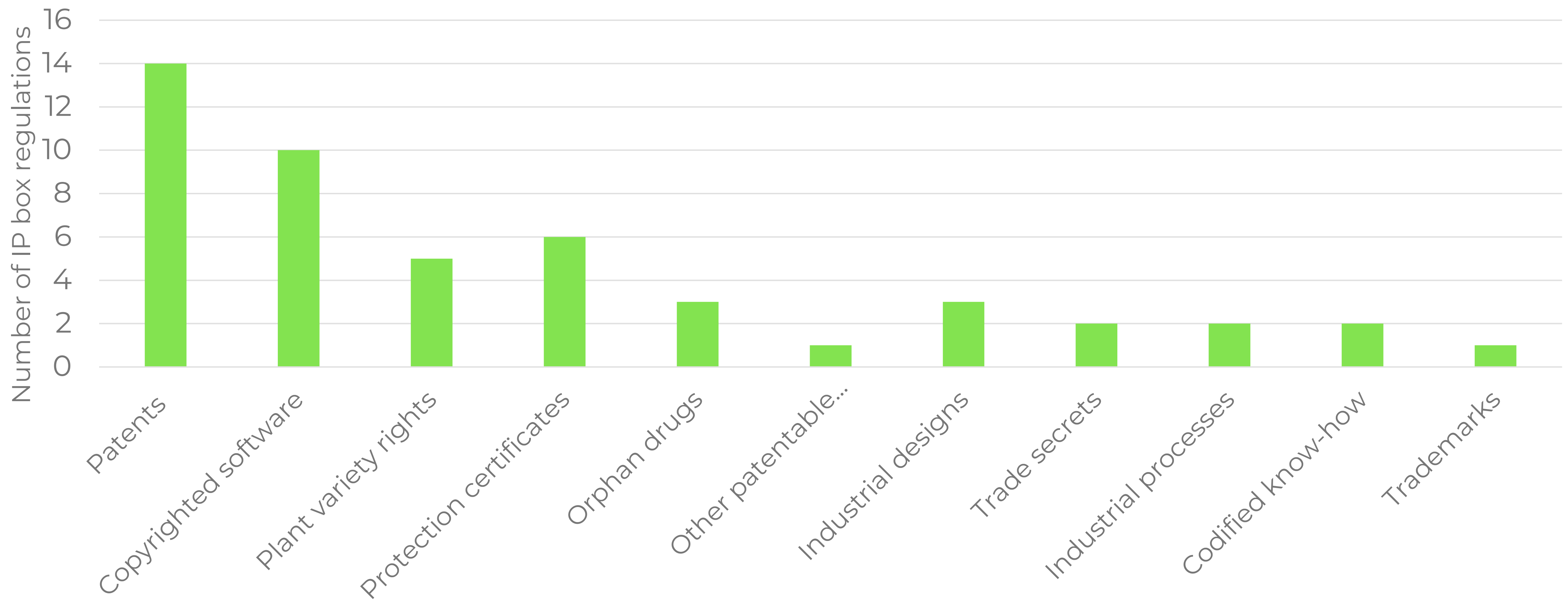
Netherlands:

Innovation box revenue is subject to 9% of the corporate tax rate

Luxembourg:

80% tax exemption on revenue linked to qualifying IP

# IP definitions vary



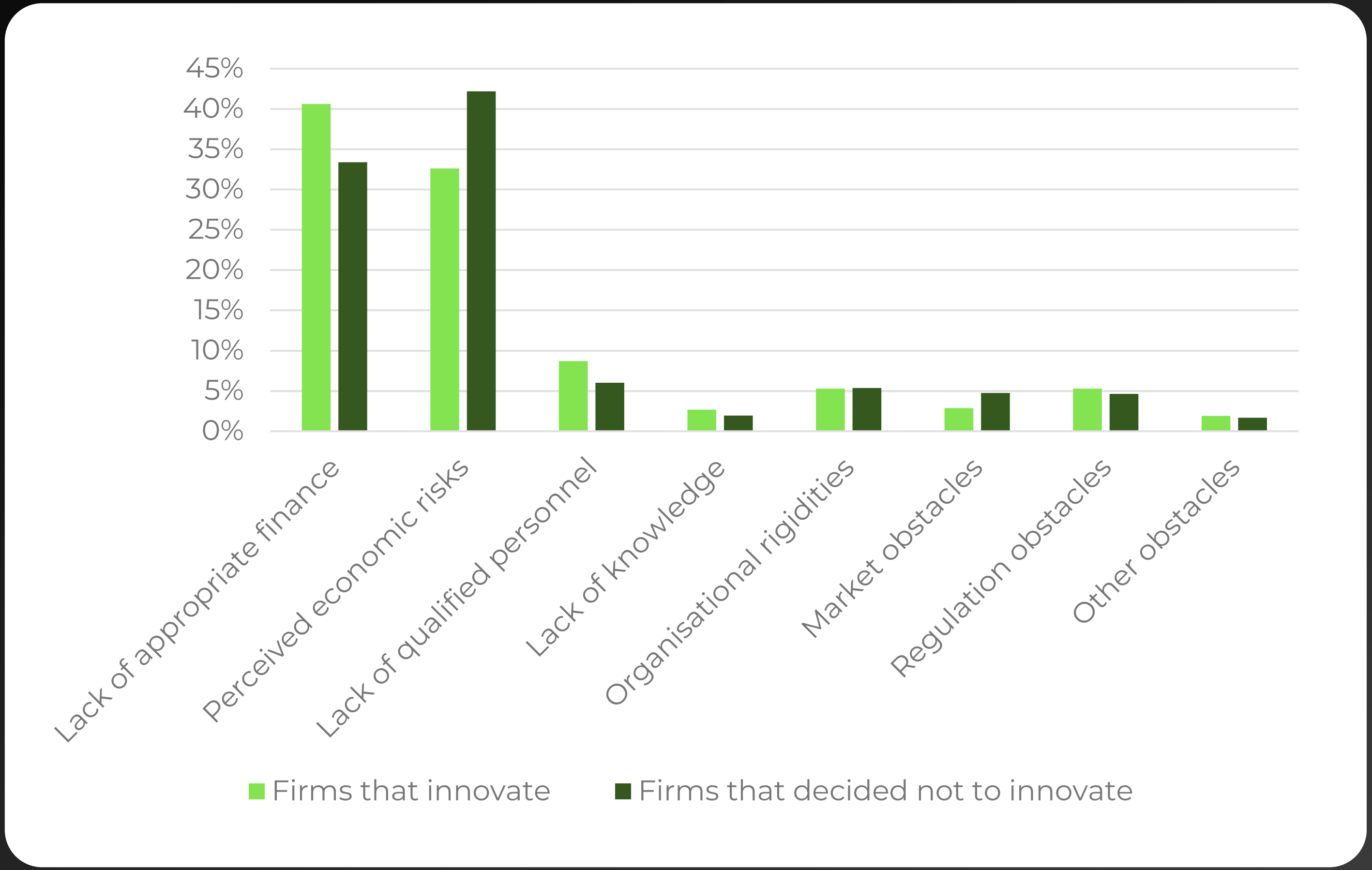



Data source: Tax incentives and investments in the EU

# RD&I tax incentives reduce risk and can create a multiplier.

# Obstacles to innovate

Incentives address the two main obstacles head-on.



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# The average return on corporate R&D expenditure is 14%–20% by a conservative estimate.

# Using the incentives wisely

## Operational innovation

Must-do innovation

Key metric: efficiency

Tax incentive: cost reduction

## Expansive innovation

Investment into business growth

Key metric: portfolio return

Tax incentive: multiplier, hedge

# Example leverage

SMEs developing new equipment.

Project costs EUR 1.2 million

Applied for a EU regional development subsidy

Can still use the tax incentives in addition

Assume the company is profitable

| Cost | | Incentive |
|---|---|---|
| Total project costs | EUR 1.2 million | |
| Wages | EUR175,000 | EUR 70,000 |
| Out-of-pocket | EUR 1.025 million | EUR 150,000 |
| Subsidy grant | | EUR 500,000 |
| | | |
| Net project cost | | EUR480,000 |
| Multiplier | | 2.5 |

# Build your assets and network

## 1

**Tax incentives create a multiplier on your R&D expenditures.**

Input tax incentives reduce overall R&D costs directly. You can use this to get more done with the same amount of money.

## 2

**Tax incentives help you build your assets.**

Long-term R&D success depends on two types of critical assets: your facilities and your network. Tax incentives help you build both.

## 3

**Use the savings from input-based incentives for the front end.**

Do not rely on incentives for your core innovation. Instead, use the additional funds to build a strong programming base.

# Thank You

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The "Lux Take" is trusted by innovation leaders around the world, many of whom seek our advice directly before placing a bet on a startup or partner — our clients rely on Lux insights to make decisions that generate fantastic business outcomes. We pride ourselves on taking a rigorous, scientific approach to avoid the hype and generate unique perspectives and insights that innovation leaders can't live without.

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