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Practice Group:
Tax

France Shows its Support for Innovation by Improving its Research Tax Credit (RTC) System in the Draft Finance Act for 2013

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Large industrial, commercial and agricultural companies which are subject to company tax (or income tax on industrial and commercial profits) have been enthusiastic about the RTC system since its adoption. It is now proposed that the package should be extended to small and medium-sized enterprises (SMEs - as defined by Community regulations) which will benefit from approximately €200 million of additional tax benefits.

Despite the increased RTC rates available in the first two years of the scheme being abolished, the bill extends the scheme to expenditure on innovation beyond initial research. This makes what was already one of the most competitive RTC regimes in Europe even more attractive.

The existing RTC system allows tax deductions for depreciation, personnel-related costs (researchers, etc.), operating costs, costs for outsourced R&D, protection of industrial intellectual property, and costs associated with standardization and keeping up-to-date with technology. In addition to these expenses, amounts that SMEs spend on prototypes, new product development, or pilot plants, will now be covered by the RTC scheme.

These expenses, up to a total of €400,000 per year, will be taken into account in calculating the RTC base, and will be eligible for the tax credit at the rate of 20%.

The acceptance procedure will also be relaxed. This procedure allows companies to make sure that their research activities are eligible for the scheme by assuming acceptance if the relevant agencies do not object within a set time period.

Those wishing to benefit from the RTC system will no longer have to submit a ruling request to the tax authorities, the Ministry of Research, OSEO Innovation and the National Agency of Research prior to the start of operations. Instead, they have six months from the date they start research activities to submit the ruling request. This procedure will apply to requests made on or after 1 January 2013. In the absence of a response from the administration or organization within three months, the expenses will be deemed to be eligible.

These provisions will apply to tax credits for expenditures incurred from 1 January 2013 and depreciation of assets acquired or created from that date.

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