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Characteristic attributes of subsidised research and experimental development

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In Austria, companies conducting research and development are financially supported by the state. They may claim a research tax premium for certain research and development expenses. This research premium is valid regardless of the legal form of the company. It is credited to the company's tax account and can then be transferred to the company's bank account. The research premium itself is not taxable, and does not result in a reduction of expenses. Another advantage of the research premium is that it is even available to companies that are making a loss. The research tax premium is subject to some conditions and is legally standardised in Section 108c EStG, the associated regulation for the research tax premium, and in the Frascati Manual. The research tax premium is 12% for the fiscal years from 1 January 2016 to 31 December 2017. From 1 January 2018 the Austrian government raised the research tax premium to 14%.

Definition and requirements

One of the main definitions is set forth in Annex I Part A Z 1 of the research premium regulation:

"Research and experimental development within the meaning of Section 108c (2) Z1 EStG 1988 is a creative activity carried out in a systematic manner using scientific methods with the aim of increasing the level of knowledge and developing new applications of this knowledge. Research and experimental development in this sense includes basic research (Z 2) and/or applied research (Z 3) and/or experimental development (Z 4). It includes the scientific-technical field as well as the social sciences and humanities."

The second chapter of the Frascati Manual, version 2015, is very relevant for the concepts and definitions used to identify research and development. This chapter includes the following specification under bullet point 2.5:

"Research and experimental development (R&D) comprise creative and systematic work undertaken in order to increase the stock of knowledge – including knowledge of humankind, culture and society – and to devise new applications of available knowledge."

According to the Frascati Manual, research & development activity must satisfy five core criteria. The activity must be:

- Novel: New discoveries and applications have been made through research; in the field of business, the novelty must be measured against existing knowledge.
- Creative: There should not be any routine activities; objective new concepts or ideas of qualified researchers that extend the current state of knowledge.
- Uncertain: There has to be some uncertainty about the research result, the time spent, the required resources and the involved costs.
- Systematic: The process must be planned and carried out consciously.
- Transferable and/or reproducible: The results must be both comprehensible and/or reproducible by third parties.

Types of research and development

The term research & development covers three types of activity: basic research, applied research and experimental development. Basic research is experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundation of phenomena and observable facts, without any particular application or use in view. Applied research is original investigation undertaken to acquire new knowledge. It is, however, directed primarily towards a specific, practical aim or objective. Experimental development is systematic work, drawing on knowledge gained from research and practical experience and producing additional knowledge, which is aimed at producing new products or processes or improving existing products or processes.

Subsidised expenses

The target has to be increasing the level of knowledge and using it for developing new applications. Besides the content requirements there are defined expenses which are subsidised. The basis for calculating the premium includes the wages and salaries of employees working in research

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five core criteria

basic research

applied research

experimental development

developing new applications

creative activity carried out in a systematic manner using scientific methods

in order to increase the stock of knowledge

and development, expenditure and investment directly linked to research and development, as well as land (under certain conditions). Besides these costs, direct financing costs and overheads are also included in the assessment base, if they can be allocated to research and development.

Application process

The taxpayer must submit a (free) annual report from the Austrian Research Promotion Agency (FFG). The FFG assesses if the substantive prerequisites for research and experimental development actually exist. This FFG report includes a detailed specification of the research and development activities of the company, and subdivides the individual descriptions into three different sections. It has to include a description of the research target, a description of the annual procedure and the scientific method, such as a description about the innovative nature of the research project. To sum up, the FFG checks if the report is consistent with the legal definitions of the research and experimental development characteristics of Section 108c EStG, of the research premium regulation and the Frascati Manual.

FFG report

Completing form E108c is another requirement, which includes the applied value and is a supplement to the tax return of the requested year.

form E108c

Conclusion

The research tax premium is an interesting way for companies to obtain governmental support for ongoing research and development.

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