

Introduction

The Research Tax Credit (RTC), called in French “Crédit d’Impôt Recherche” (CIR), is a tax credit intended to support R&D activities carried out by firms operating in France.

This tax incentive enables companies to increase their competitiveness by supporting their Research & Development efforts.

France offers one of the **most favourable R&D tax incentives** in the OECD.



Who can benefit from the French RTC ?

Any industrial, commercial or agricultural organisation subject to corporate tax in France can benefit from the French RTC.

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.

France’s research tax credit is considered as one of the best in Europe:

- It covers 40% of R&D expenses the first year, 35% the second year and 30% for subsequent years up to €100 million (and 5% of expenses above this threshold);
- All R&D expenses are taken into account (salaries, social security contributions, running costs, depreciation, patents, technology intelligence and monitoring, etc.);
- A powerful instrument for encouraging partnership research in France and Europe: expenses incurred on operations subcontracted to French and European public-sector research bodies are assessed at 200%, which amounts to a doubling of the tax credit;
- Eligibility of an R&D project can be confirmed by the French Ministry for Higher Education and Research through the “advanced ruling” (“rescrit fiscal”) procedure prior to work beginning. The ministry must respond within three months following the request, after which time eligibility can be assumed

Which activities may qualify for the RTC ?

The activities considered as the basis for calculation of the research tax credit must match the international definition of R&D activities established by the OECD in the Frascati Manual.

According to this definition, R&D activities are divided into three categories:

- (i) **Fundamental research** whose purpose is to contribute theoretically or experimentally to solving technical issues, contribute to the analysis of properties, structures, physical and natural phenomena,
- (ii) **Applied research** which aims at identifying possible applications for the results of basic research or at finding new solutions allowing the company to reach a specific objective. The result of applied research consists in a prototype product, process or methodology.
- (iii) **Experimental development** which is carried out thanks to prototypes and which aims at providing technical elements for decision-making and manufacturing in order to either generate new materials, devices, products, processes, systems, etc. or to substantially improve existing ones.

In any case, in order to qualify as R&D, the activity must involve substantial innovation, or originality compared to the existing state of the art. The mere application of state-of-the-art techniques is not considered as R&D. For example, R&D does not usually include activities aiming at increasing productivity, reliability, ergonomics, IT portability, or upgrading basic and application software.

Which expenses are eligible?

Eligible expenditures include mainly expenses relative to human and material resources allocated to R&D, subcontracted R&D, technology intelligence and monitoring, patenting or patent protection.

The following expenditures may be included in the RTC base:

- Depreciation allowances of R&D assets
- Staff expenses (researchers and technicians allocated to R&D)

Especially, expenses related to PhD holders (or equivalent diploma) are accounted for twice their cost during the first twenty four months following their first recruitment (first long term contract).

- Operating costs

These costs (covering overhead expenses) are valued as a fixed allowance equal to 75% of the R&D assets depreciation costs and 50% researchers' salary costs, as well as 200% of the staff expenses relating to PhD holders (or equivalent) during the first twenty four months following their first recruitment.

- R&D subcontracting in France, or in other EU Member States

Expenses relating to R&D operations entrusted to public research labs are accounted for twice their actual cost, up to a maximum of EUR 2 million per company per year. This limit is increased to EUR 12 million on condition that the company benefiting from the RTC is independent from the subcontractor.

R&D expenses entrusted to private research bodies or to scientific experts are taken into account for their actual cost, without exceeding three times the amount of other R&D expenditure, nor EUR 2 million per company per year (or EUR 10 million on condition that the company benefiting from the RTC is independent from the subcontractor).

- Fees for patent filing, patent maintenance and plant variety protection certificates
- Standardisation expenses and technology intelligence and monitoring expenses



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 doctoral employees hired less than 24 months ago (gross salary and social contributions)	€ 250,000	€ 500,000
Other R&D employees' salary costs (gross salary and social contributions)	€ 200,000	€ 200,000
Operating costs (valued as 200% of doctors' salary costs and 50% of other employees' salary costs and 75% of depreciation costs) (lump sum)		€ 637,500
<i>Total of costs</i>	€ 500,000	€ 1,387,500
Total RTC granted (40%), to be offset against corporation tax payable or to be refunded		€ 555,000

Please note that other fiscal measures for R&D are also available for investors in France, like the status of young innovating companies.

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