

Super-deduction of R&D costs

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In brief

The Amendment to **Act no. 595/2003 Coll. of Laws on Income Tax** entering into force on **1 January 2015** introduces a new type of tax benefit for taxpayers performing research and development.

The so-called, super-deduction can be applied by a taxpayer who carries out an R&D project and it incurs expenses that are a part of the economic results relating to this project.

New regulation in Art. 30c of the Act

New regulation in Art. 30c of the Act shall:

- put into practice an efficient tool that is already used to support R&D in neighbouring countries and thus strengthen the competitiveness of businesses operating in Slovakia;
- motivate entrepreneurs to implement research activities within their business;
- incur higher amounts of funding in this area; and
- create job positions for researchers - mainly graduates.

Deductible costs

The sum of the following can be deducted from the tax base reduced by the tax loss deduction related to the R&D project implementation:

25%
of the
expenses

25 % of the expenses (costs) incurred on R&D in the tax period for which the tax return is submitted;

25%
of the
employee's
wage costs

25 % of the employee's wage costs - in the case of an employee involved in the implementation of an R&D project in the tax period during which there was a permanent employment contract entered into with the employee who is a citizen of the EU, younger than 26 and who has attended and completed systematic education (secondary or university) to an appropriate level, less than two years ago;

25%
of the
expenses

25 % of the expenses (costs) incurred in the tax period on R&D that exceed the total expenditure (costs) for R&D incurred during the immediately preceding tax period.

Non-deductible expenses (costs):

- costs which have been granted total or partial support from public funds;
- services, licenses and intangible results of R&D acquired from other parties, with the exception of expenses (costs) used for:
 - services related to the implementation of an R&D project and intangible results of the R&D acquired from the Slovak Academy of Sciences, legal entities performing R&D established by central government authorities and universities;
 - intangible results of R&D acquired from parties that have been issued a certificate of competence to perform R&D;
 - certification of the taxpayer's R&D results incurred by himself.

What is R&D?

The criterion for distinguishing R&D activities from other (related) activities is **the presence of the measurable element of novelty and clarification of the research or technical uncertainty.**

The recognition of expenses (costs) will be based on **the Accounting Procedures for Entrepreneurs, part Intangible Assets Accounting (art. 37).**

Booking of expenditures (costs)

The only expenses that can be deducted from the tax base are those which might be considered as tax and are registered separately from other expenses (costs) of the taxpayer, broken down by individual projects and accounting transactions.

Records must meet the transparency requirements and requirements for the demonstration of deduction eligibility, while the burden of proof is on the taxpayer.

If the expenses (costs) incurred for R&D are related to the implementation of an R&D project only partially, the deduction is only applicable to the actually-related expenses.

R&D project

If interested in super-deduction, the taxpayer needs to have a project documentation processed - a written document in which there will be a specification of the subject of R&D.

The project will include the following:

- identification of the company;
- expected commencement and completion of the project;
- description of the project, its objectives measurable during its implementation and at completion;
- volume of the costs, split into years, and their structure;
- involved personnel;
- evaluation method of project results.

It is not necessary to file project documentation with any institutions before the company files its tax return for the tax period in which these R&D costs will be deducted from the tax base. However, the tax authority will ask that it is presented at the tax inspection.

Time frame of super-deduction

If the deduction is not applicable on the grounds of the following reasons:

- taxpayer reported a tax loss, or
- tax base after the tax loss reduction is lower than the deduction possible,

it is possible to apply the expenditure (costs) deduction on R&D, or its remaining part, in the subsequent tax period in which the taxpayer reaches the positive tax base, however, for no more than four tax periods immediately following the tax period in which the right to deduction became eligible.

The takeaway

If you are engaged in research and development, this option may be interesting for you. It is an appropriate and administratively simple tool for supporting investments in the area of R&D. We will be happy to discuss with you how to use this option in practice effectively.



Let's talk

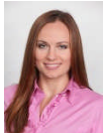
For a deeper discussion of how this issue might affect your business, please contact:



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