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Tax incentives: Commission promotes an effective use of tax incentives for R&D

(see [MEMO/06/440](#))

The European Commission has adopted a Communication on the more effective use of tax incentives in favour of R&D in order to boost R&D investments and enhance job creation and economic growth in Europe. The Communication clarifies the legal conditions arising from EU case law and sets out some basic principles and good practices for the design of tax incentives for R&D. It encourages Member States to improve the use and coordination of tax incentives on specific R&D issues.

"R&D is vital for our economy and competitiveness in a more and more globalised world. I am convinced that tax incentives promoting R&D would make Europe more competitive and help create more jobs and growth when coordinated among the Member States" said Commissioner László Kovács. "I invite Member States together with industry and researchers to embrace a more consistent and favourable tax environment for innovation and cooperation across borders."

"We have identified tax incentives as way of encouraging more private investment in R&D," said European Science and Research Commissioner Janez Potočnik. "We want to break down the barriers that prevent companies and researchers working together across internal borders and so create a European Research Area. A common approach to tax incentives would be a good step in the right direction."

Currently, tax incentives have grown to become one of the major instruments used by many Member States to increase business R&D. In parallel, industry is embracing the open innovation model and cooperation across borders is becoming commonplace, in particular in the high tech sector. However, the diversity of schemes introduced has resulted in an increasingly complex landscape for R&D tax treatment in Europe hindering trans-European collaboration.

The Commission therefore clarifies that tax incentives which restrict their benefits to activities performed domestically are incompatible with the EC Treaty. It is also important to realise that R&D tax incentives which target a specific group or sector may constitute State aid and therefore must be made compatible with the Community State Aid rules. It is therefore particularly important for Member States to note that the new State aid framework for research and innovation, which has been adopted in parallel, may have a direct effect on their tax incentives for R&D. (see [IP/06/1600](#))

The Commission also offers guidance on the main design options, features and relevant factors which Member States may wish to follow when designing or updating their R&D tax incentive schemes.

These include, for example:

- Ensuring that tax incentives are easily accessible for a broad range of R&D firms;
- including elements of simplicity as well as low administrative and compliance costs;
- principles for evaluation of tax incentives;
- the need for delivery to be timely, efficient and predictable.

The Commission also invites Member States to work together when considering the tax treatment of a number of issues of common interest – in particular the funding for large-scale trans-national R&D projects; the growth of young innovative enterprises; the cross-border mobility of researchers and the treatment of philanthropic funding of research. The Communication provides concrete recommendations in these fields.

Background

In 2002, the European Council called for R&D investment to approach 3 % of GDP by 2010, of which 2 % should come from the private sector¹. In the action plan on investing in research², the Commission identified that R&D plays a key role in achieving productivity gains and economic growth, but the social return of the investment is often higher than the private return to the investing firm. This market failure cannot be addressed without public intervention.

Amongst the instruments implemented by Member States to promote business R&D, tax incentives have the specific advantage of being timely, predictable and transparent. They also attract more companies to invest in R&D and can create lasting behavioural changes to the way they plan and take part in R&D activities.

A growing number of countries (15 EU Member States) have recently implemented or further developed tax incentives for firms to conduct more research.

More information on the Communication towards a more effective use of tax incentives in favour of R&D is available on the Europa internet site:

http://ec.europa.eu/taxation_customs/index_en.htm

¹ COM(2005) 24.

² COM(2003) 226