

# The R&D tax relief



2016  
report

CHALLENGES, OPPORTUNITIES, SOLUTIONS.

market research carried out by

**KANTAR**  **MillwardBrown**

ayming



business  
performance  
consulting



Ayming is an international consulting group, created from the merger of Alma Consulting Group and Lowendalmasaï, providing Business Performance Consulting services in 15 countries: Belgium, China, Czech Republic, France, Spain, the Netherlands, Japan, Canada, Germany, Poland, Portugal, Slovakia, UK, Italy and Hungary. Ayming Polska offers professional strategic and operational consulting in such fields as: taxes and fees, costs of social insurance, energy and gas costs, subsidies and R&D tax relief. Thanks to the unique insight and experience, Ayming Polska implements cost optimization processes, helping companies increase savings and develop a competitive advantage. Ayming Polska is the head of the Tax Council team of the Lewiatan confederation on developing a Research and Development tax relief in Poland. Within one year the Group conducts over 15,000 projects on EU fund acquisition and R&D tax relief.

More on [www.ayming.pl](http://www.ayming.pl)

# Contents

<b>Introduction</b>	<b>4</b>
<b>Innovativeness and R&amp;D activity in Poland</b>	<b>6</b>
Towards innovation	6
Poland in the innovativeness ranking	7
Research and development spending	8
Share of private sector in R&D spending	8
What is research and development activity	9
<b>Most significant forms of support for R&amp;D in Poland</b>	<b>10</b>
Horizon 2020	10
EU subsidies	10
R&D tax relief	11
<b>Research findings: R&amp;D actions in companies and awareness of the R&amp;D TAX relief</b>	<b>14</b>
On the study	14
Key research conclusions	15
R&D actions in the companies	16
Awareness and use of the R&D tax relief	27
<b>How to encourage companies to increase their R&amp;D spending</b>	<b>32</b>
Developing the R&D tax relief	32
Easier access to EU subsidies	35
<b>Is the R&amp;D tax relief worth using</b>	<b>36</b>
<b>How to obtain the R&amp;D relief</b>	<b>38</b>
<b>References</b>	<b>39</b>

# Introduction



Dynamically changing market conditions demand that entrepreneurs continuously implement new models of action. Using knowledge and results of the studies that directly contribute to development of new technologies translates into fast development, strengthening of the position in the industry or winning new markets. Innovativeness is thus currently the element necessary for development of effectiveness and competitiveness of enterprises. At the same time, in the age of globalisation, continuous technological progress and high competitiveness, increase in innovativeness is one of the priority objectives in the strategy of development of a majority of world economies. Execution of these objectives always requires high commitment on part of the private sector. Creating optimum conditions for development of R&D activities in companies is thus an integral element of the strategy of development of innovativeness of economy in many countries.

Ayming, as a global consulting company supporting enterprises in search for the most effective methods of financing research and development activities, regularly monitors the tools of supporting innovativeness available in various countries. We know that tax reliefs, Patent Box and subsidies, play a huge role in the development of innovativeness of enterprises. Our international experience shows that companies worldwide, using such tools, are increasingly opening to innovations, including them

in long-term strategy of development of the organisation and increasing expenditures for R&D. This is why the introduction (in 2016) by the Polish government of the long-awaited relief for research and development activities is a good step to the creation of space for the entrepreneurs for further development of R&D actions.

After almost 11 months that the relief has been functioning, we provide you with the report on "R&D relief. Challenges, opportunities, solutions", in which we review research and development activities in companies in Poland, verify awareness of companies about the R&D relief, as well as their plans and expectations related to this support instrument. At the same time, on the basis of our international experience and expert know-how in the scope of innovativeness, we present the recommendations related to further development of the R&D relief.

We hope that our publication will spark interest of companies in research and development activities and the available forms of support, which will contribute to increasing innovativeness of enterprises in Poland. We also hope that the conclusions from the study and our recommendations will be regarded by the Polish government as an important voice in the discussion about further development of the system of support for development of innovativeness in the private sector.

*Abbas Djobo*

**Country Manager  
International Director Finance & Innovation  
Northern Region**



*Innovation drives robust growth  
and top business performance.*



*The key to stimulating the development of innovativeness of the private sector in Poland, is to educate and encourage the market to take advantage of the available forms of support.*

The Polish economy and Polish business are in need of innovation. Innovation requires investment in research and development activities. In accordance with the development strategy adopted by the Polish government, the GERD indicator – calculated as the share of internal spending on R&D in the GDP, is to reach 1.7% by 2020. This means that R&D spending in Poland should grow to approximately 35 billion PLN. In 2015, R&D spending amounted to 18 060.7 million PLN and the share of internal spending on R&D in the GDP was 1.00%. Even though innovativeness is growing, the structure of spending on R&D clearly indicates that stronger involvement of the private sector is needed. Businesses should know that the play is worth the candle. After all, innovativeness is the driving force behind the growth of businesses, the source of competitive advantages, and the tool for acquiring above-average performance.

The key to stimulating the development of innovativeness of the private sector in Poland, is to educate and encourage the market to take advantage of the available forms of support. The most important of these are the European Funds provided through the new financial perspective and the long-anticipated tax relief for research & development activities, adopted at the start of 2016.

At first glance, it could seem that the R&D tax relief is a solution for only very few. As many as 60% of our respondents pointed out that their businesses do not carry out any R&D activities! No wonder, considering that R&D is widely associated with advanced technology or breakthrough discoveries. In the meantime, research and development can be found in the regular activity of most business. R&D actions include perfecting a product recipe, or purchasing innovative

technologies, such as i.e. purchasing a new machine. Therefore, the R&D tax relief is a solution for all businesses. To use it, a business does not need to have global-scale innovativeness or partake in proverbial “beauty pageants”. One must simply understand what R&D activity is and properly categorize its costs.

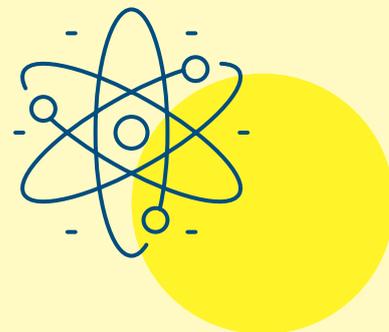
This report outlines how research and development activity is done in businesses in Poland, what level of awareness companies have about the R&D tax relief, but it also reveals their plans on using this tax incentive. We study companies from chosen sectors and of different sizes. We pay special attention to differences in the approach to innovation among business with majority Polish, and majority foreign capital. The study has led to some interesting conclusions, but one of them requires to be stressed particularly strongly – the R&D tax relief is a tool that needs to be continuously developed and promoted.

We are hoping that this Ayming Polska report will provide you with valuable insight that will encourage you to consider implementing research & development activities in your organization and to consider the opportunities that the R&D tax relief offers, and that the report will be a source of inspiration for institutions that support innovativeness in Poland. We are hoping that our observations and recommendations will contribute to the development of effective tools, which will genuinely support companies in increasing their spending on research and development activity. At the same time, we would like to offer our thanks to all the companies that dedicated their time to answer our questions and share their thoughts on R&D. We are hoping that our combined effort translates into tangible results for business and for the Polish economy.

*Małgorzata Boguszevska*

**Manager: R&D Tax Reliefs & Grants**

# Innovativeness and R&D activity in Poland



## > Towards innovation

Since the economic transformation of 1989, economic growth has been swift in Poland, despite the low level of innovativeness. The growth was based above all on low costs of labor, quick accumulation of capital, inflow of modern technologies from abroad, and robustly increasing education level of the Polish. The low labor costs were conducive to investments in labor-demanding sectors, such as assembly plants, call centers or farming. Thanks to the inflow of direct foreign investment and thanks to opening to global markets, including the EU market – Poland has narrowed part of the gap dividing it from Western Europe countries, especially with respect to physical and human capital costs of production processes. At present, sustaining the robust growth of physical and human capital resources seen in the past 27 years, is impossible. The sources of fast economic growth used thus far are gradually exhausting in Poland – they need to be replaced by innovativeness.

As it has been observed by the deputy prime minister Mateusz Morawiecki, the cheap labor model for economic growth in Poland is a dead end.<sup>1</sup> Innovativeness needs to become the new driving force of development, it will help companies generate higher profits, in consequence it will also bring about an increase in salaries.

The Polish economy therefore needs a new shape, one that comes from knowledge, innovative solutions and partnership between science and business.

In accordance with the announcements made by deputy prime minister Morawiecki, one of the key goals for Poland is to increase spending on research and development to reach the European Union average. This means that by 2020, the R&D spending needs to grow to a level of approximately 2% of the GDP. For this to happen, R&D spending in businesses needs to at least double in relation to the GDP. In the face of this challenge, it is necessary to educate the market of companies on what research and development activity is, how it translates into growth, and on the available forms of support for companies that carry out R&D.

In recent years, innovativeness has grown in Poland thanks to EU funds. With the start of 2016, the government has introduced tax regulations to support research and development activities. With this new regulation, the internal costs an organization incurred due to R&D can become the basis for tax relief.

---

1. Morawiecki: Rozwój w oparciu o niskie płace to droga donikąd, GazetaPrawna.pl, September 2016

## > Poland in the innovativeness ranking

In the past decade, much has changed in Poland in the field of innovativeness, which is confirmed by the analysis of the country's position in the international ranking, the Global Innovation Index (GII). In 2007, Poland was 56th in innovativeness,<sup>2</sup> and in 2016 it is ranked 39th out of 128 countries.<sup>3</sup> It has climbed 17 places! It is also worth noting that the biggest changes took place in 2009-2011 (from 56th to 43rd place) and in the last year – Poland has climbed by as many as 7 places. The Global Innovation Index is calculated as the average of two indicators: the input sub-index and the output sub-index. The former is comprised of: institutions, research, human capital, infrastructure and level of advancement of the market and business, the latter one is comprised of: results of innovations. The more of the latter, even with small investments in research and development, the higher a country is in the ranking. As it appears, Poland is rated highly among others with respect to political stability (26th place), education (9th place for PISA exam results in such fields as: reading comprehension, mathematics and science), or ease of obtaining credit (18th place). Unfortunately, the high standard of education in Poland does not translate into growth of business and technology (51st and 52nd place in the GI), which also indicates that there is a need for more effective planning of research, to make it possible to use the scientific potential in practice. There are still too few graduates with technical majors (81st place),

and businesses rarely cooperate with universities (71st place). In consequence, the ratio between investment and quality effects is poor in Poland, meaning that the country is inefficient (66th place in the "Innovation efficiency ratio").

Out of all the CEE countries, Poland is behind: Estonia (24th place), Czech Republic (27th place), Hungary (33rd place), Latvia (34th place), Lithuania (36th place), Slovakia (37th place) and Bulgaria (38th place). The changes made are going in the right direction, but Poland is still lagging behind. It is the outcome of years without innovation, and proof that there is still much to make up for.

According to the most recent report of the European Commission, "European Innovation Scoreboard 2016", Poland has recorded an increase in its innovation indicator. Compared to the 2015 result, Poland has moved up one place and is now 23rd. The leap in the ranking applied to 14 out of 25 indicators. This growth was particularly visible in the case of the share of company spending on R&D (BERD) in the GDP (by 15%) and revenue from licenses and patents from abroad (by 15%).

2. World Business, INSEAD, Global Innovation Index 2007: The Power of Innovation, 2007  
 3. Cornell University, INSEAD, and the World Intellectual Property Organization, Global Innovation Index 2016: Winning with Global Innovation, 2016



## > Research and development spending

In 2014, Poland was one of the few countries in the world (besides New Zealand, Belgium, Israel, South Korea and Spain) that increased their spending on research and development. This increase in spending on R&D has been taking place in Poland uninterrupted since 2008 and it has also been recorded in the crisis years. The growing R&D expenses are gradually translating into growing innovativeness of the Polish economy. However, considering the potential of Polish academic institutions and companies, these changes should be taking place faster.

According to the data from the "Central Statistical Office" (GUS), in 2015, spending on research and development in Poland amounted to 1% GDP, which, compared to other countries of the region, is unfavorable (already in 2014 Hungary recorded 1.37%, Czech Republic 2% and Germany 2.87% of the GDP)<sup>4</sup>. If we additionally consider the structure of spending on R&D, which includes the private sector, public sector and higher education institutions, it appears that compared to other countries, Poland is mainly lagging behind in the private sector. In Western Europe countries, 2/3rds of the spending on research & development comes from the private sector. The situation is similar in Hungary. On the other hand, in Poland this is less than half of the total spending. Why are there such vast differences in the spending of the private sector ?

4. Eurostat, [www.ec.europa.eu](http://www.ec.europa.eu)

## > Share of private sector in R&D spending

The private sector is still investing little in R&D in Poland. Moreover, the data gathering methods about R&D activity and measuring of spending on R&D in companies are flawed. In Poland, the amount of private sector spending is measured mainly by the GUS statistical office through reports about research and development activity. The obligation to share statistical data originates from art. 30, point 3 of the June

29th, 1995 act on public statistics (Journal of Laws from 2012, item 591, later amended) and the resolution of the Council of Ministers dated July 21st, 2015 on the program for public statistical research for 2016 (Journal of laws, from 2015 1304). This document covers companies about which the GUS knows that they are conducting R&D activities. Other entrepreneurs can voluntarily download a document from the GUS website, fill it out and send it to the statistical office. What is important, the reported R&D activity is not verified in any case. According to the businesses, filling out the document is not easy, and sending it is not linked to any incentive for the company. Taking into consideration the fact that the report is declarative and its submission is voluntary, one can assume that the results do not show the actually made R&D investments.

In other countries, this problem has been solved by introducing an R&D tax relief. The condition for using this relief is among others documenting the investments made into activity classified as R&D. In Hungary, this relief was introduced in 1999, in Czech Republic in 2005 – in these countries R&D spending is therefore measured and classified well. In Poland before 2016, there was no tax incentive motivating entrepreneurs to systematically measure their R&D spending. This is among other reasons why there is low awareness of what indeed constitutes research and development activities.

**In the Czech Republic the R&D relief was introduced in 2005.**

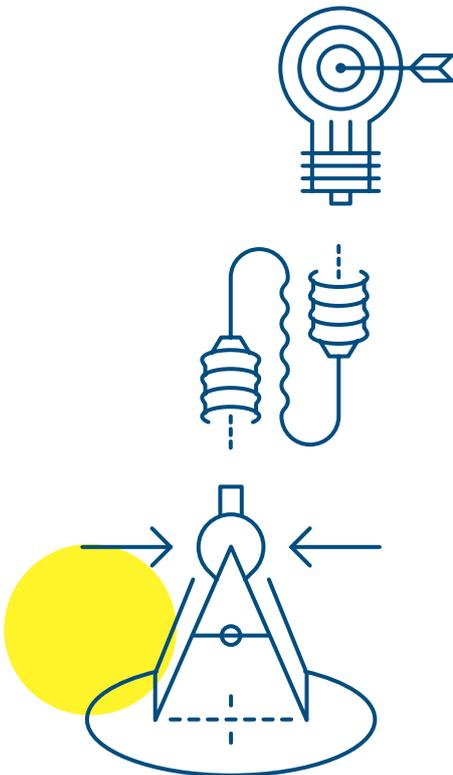
**In the first year, 454 companies have benefited from it. In 2014, there were already 1271 such companies and in total they have deducted EUR 350 million, which means a saving at a level of EUR 70 million.**

**Companies could potentially invest these gained resources in research and development.<sup>5</sup>**

5. Český statistický úřad, *Nepřímá veřejná podpora výzkumu a vývoje v České republice 2014*, Praha, 2016

## > What is research and development activity

In Poland, research-development activities are associated mainly with advanced technologies, R&D centers and revolutionary products or services. Whereas in fact R&D is undertaken by most companies as part of their regularly conducted business. R&D actions for example would be improving the recipe of products or their consistency (i.e. a new texture of yoghurt), enhancing the nutritional value (low-calorie products, products without trans fats, etc.), making the packaging more durable or reducing its weight, reducing the volume of waste or environmental impact by using alternative materials or production processes. R&D also includes integrating complex production processes into a single, automatized program, the development of software or interfaces via new technologies, or new models for risk assessment in the case of financial services. Actually any change in the company is part of R&D activity. Correct understanding of what R&D is, will help more effectively identify its manifestations in companies, and this will positively translate into indicators that measure innovativeness of the Polish economy.



*According to the law, research and development activity is:*



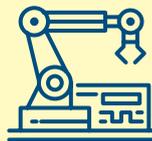
### basic research

- acquiring new general information
- only in cooperation with an academic institution



### applied sciences

- putting new, theoretical knowledge to use in practice



### industrial research

- new products, processes, services
- implementing significant improvements to products, processes, services



### development works

- acquiring and putting to use available knowledge from the fields of science, technology, economic activity for planning production/ creating/ designing new, changed or enhanced products, processes and services (prototypes, pilot programs, demonstrators/ testing/ validation)

# Most significant forms of support for R&D in Poland

## > EU subsidies

The 2014-2020 financial perspective enables acquiring European Union funds by entrepreneurs for financing pro-development projects from a few sources. The most popular ones include:

- Smart Growth Operational Program (managed by the National Center for Research and Development, Polish Agency for Development of Entrepreneurship, Ministry of Development),
- Regional Operational Programs (managed by the voivodship Marshal offices) dedicated to specific regions (voivodships).

European funds are in most cases intended for the SME sector, but there is also a pool for large companies. It is irrelevant what industry a given entrepreneur operates in, what is only important is for the scope of the project to fit the framework of the Domestic Smart Specializations (POIR) or Regional Smart Specializations (RPO). Entrepreneurs can apply for subsidies to carry out industrial research, as well as R&D projects, but also to implement the developed solutions. Not every project has a chance for financing. The highest-rated projects are the ones with at least country-wide scale innovativeness, with high potential for launching to the market and which generate significant growth of revenue.

Thanks to the wide scope of eligible costs which can be financed, it is possible to undertake a full research process, from the idea itself, to checking the developed solution in real conditions. The catalogue of costs also enables purchasing essential research equipment, financing costs of scientific work of academics/ employees performing research, purchasing materials necessary for the research process and establishing cooperation with the science sector.

If a company (SME) achieves satisfactory results in the research process, it can apply to receive subsidies for implementing research work for its economic activity. The financing level ranges from 10% to 50% and depends on where the project is executed, the value of the company and the type of costs. The financing level can be increased if certain conditions are met, such as giving public access to the results of the research or establishing cooperation with the SME sector.

Executing projects cofinanced by European Union grants raises the value of research spending in the company (this can be the basis for using the R&D relief) and it allows implementing new, innovative products and services that increase a company's competitiveness. It can also be the basis for establishing enduring cooperation with research institutions and for developing the company's own R&D departments.

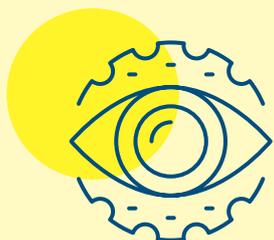
## > Horizon 2020

Horizon 2020 is the largest innovation incentive program in the European Union. Its goal is to increase the number of breakthrough discoveries and solutions and to create world-class science and technologies in Central Europe, to stimulate economic growth. Horizon 2020 is a financial instrument for executing the so-called Innovation Union, an undertaking that lies at the heart of the Europa 2020 strategy for smart and enduring economic growth. The program's budget amounts to nearly 80 billion EUR, and its distribution is planned for 2014-2020.

All initiatives for financing scientific research and innovations have been brought together under the program: 7 Framework Program, Framework Program for Competitiveness and Innovation (CUP), European Innovation and Technology Institute (EIT). Concentrating actions within one program is supposed to create a coherent system for innovation financing: from scientific concept, through research, all the way to implementing new solutions, products or technologies.

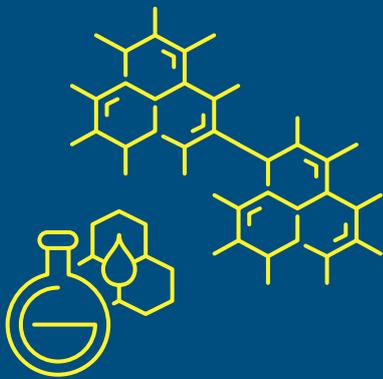
Horizon 2020 is available for all, including SMEs and large businesses. The program has streamlined procedures for receiving refunds and has significantly reduced formalities, allowing participants to focus more on the substantial and implementation-related aspects of projects.

Innovative businesses often have difficulty obtaining financing for new, high-risk ideas or their development. Horizon 2020 helps fill this "innovation gap" via loans and guarantees, and investing in innovative SMEs or small companies with medium-level capitalization.



## > R&D tax relief

Starting from January 1st 2016, entrepreneurs investing in innovations can take advantage of an income tax relief (CIT/ PIT). Every company can additionally write off from 10% to 30% eligible costs of R&D activity identified as such in the accounting records. Because the results of the research conducted is irrelevant, the relief can also be acquired on projects that were unsuccessful. The key to using the support is properly defining actions, projects and costs which are the basis for receiving the relief.



### Eligible costs

The following catalogue of eligible costs includes:

- salaries, including social insurance premiums of employees in the part covered by the employer (this applies to employees hired for pursuing R&D activities),
- acquiring materials and resources directly linked to R&D activity carried out,
- expertise, opinions, consulting and services equivalent to them, but also purchasing results of scientific research, provided or performed on a contract-basis by a scientific institution for the needs of the carried out R&D activity,
- paid-for use of scientific-research devices/ equipment used for R&D activity,
- depreciation charge of fixed goods and non-tangible assets and legal assets used for R&D activity.

The catalogue of eligible costs is closed and does not allow deducting other costs than those indicated above. The deduction does not apply to personnel vehicle depreciation costs and buildings, structures and properties that constitute a separate entity.



### DIVISION OF ELIGIBLE COSTS AND VALUE OF POSSIBLE ADDITIONAL DEDUCTION IN 2016

ELIGIBLE COSTS	% VALUE OF ADDITIONAL DEDUCTION IN 2016	
	SMEs	Large E
 Employment costs	30%	30%
 Materials and resources	20%	10%
 Expertise, opinions, consulting, research purchased from scientific institution	20%	10%
 Paid-for use of scientific-research devices/ equipment	20%	10%
 Depreciation of fixed assets and intangible and legal assets	20%	10%

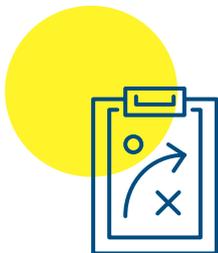
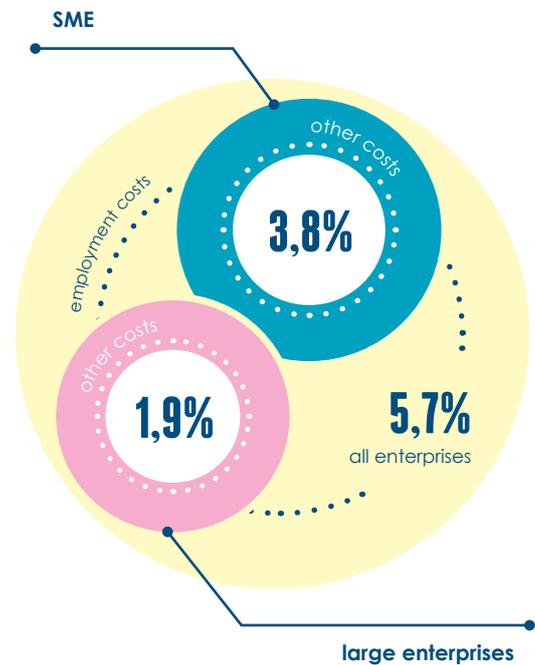
## Actual deductions for entrepreneurs

Starting from January 2016, entrepreneurs paying the 19% CIT rate can in actuality write-off 5.7% employment costs and 3.8% (small and medium enterprises) or 1.9% (large companies) of other costs, among others materials and resources directly linked to R&D activity, opinions, expertise and research purchased from scientific institutions.

## Starting January 1st, 2017 - more tax relief on research & development

In February 2016, the Polish government has adopted the Plan for Responsible Development, aimed at speeding up economic growth. One of its pillars is the development of innovations. Effects of the government's efforts can be seen even now. On October 6th, 2016, the parliament has passed the so-called "small innovativeness act", which introduces beneficial changes for companies that conduct innovative activities. The act is presently being proceeded in the Senate.

## ACTUAL DEDUCTION IN 2016



## Most important changes:

### Increasing the value of the R&D deduction.

Starting January 2017, companies will be able to deduct the following costs from the tax base:

Small, medium and large companies



costs linked to employees hired to conduct R&D activity

Small and medium companies



eligible costs linked to R&D activity

Large companies



---

**DIVISION OF ELIGIBLE COSTS AND VALUE OF POSSIBLE DEDUCTION IN 2017**


---

ELIGIBLE COSTS	% VALUE OF ADDITIONAL DEDUCTION IN 2017	
	SMEs	Large E
 Employment costs	50%	50%
 Materials and resources	50%	30%
 Expertise, opinions, consulting, research purchased from scientific institution	50%	30%
 Paid-for use of scientific-research devices/ equipment	50%	30%
 Depreciation of fixed assets and intangible and legal assets	50%	30%
 Costs of obtaining a patent or protecting a utility and industrial model	50%	-

### The catalogue of costs eligible for the relief has been expanded.

Small and medium-sized companies will be able to deduct also the costs of obtaining and sustaining a patent, the right to a utility model or the rights to registering an industrial model.

### Extension of the deduction period from 3 to 6 years.

Those entrepreneurs who do not acquire a sufficient base for deduction or will obtain an additional 3 years to take advantage of the tax relief.

### Additional “cash back” relief for start-up companies.

An entrepreneur that conducts R&D activity, who incurred a loss in the company's starting year, or did not acquire a sufficient tax base for using the relief, will receive a return of the value of the investment into R&D in the form of cash. The “cash back” relief will also be valid in the company's subsequent year or operation, if the company is a small or medium enterprise.

### Lifting taxation on the contribution of intellectual and industrial property.

#### *Promising announcements for changes in 2018*

The “small innovativeness act” is only the beginning of the changes. The government is planning to introduce the “Large innovativeness act” in 2018, and this means more attractive incentives for companies. According to the announcements, an “innovative company” status will be introduced – making a company eligible for larger tax deductions – with deductions as high as 100%. There was also another idea – to reduce taxation on revenue that originates from innovation (Patent Box), although it is important to emphasize that a market that is “growing up” to innovation above all needs strong support on the level of creating new solutions. Recording costs of R&D will be easier and tax inspections will be replaced by audit. The announcements also indicate that the Polish government is intensifying actions aimed at Poland narrowing the gap and helping it perform better in the innovativeness rankings.

# Research findings: R&D actions in companies and awareness of the R&D tax relief

## > On the study

In October 2016, on behalf of Ayming Poland, Kantar Millward Brown research institute conducted a quantitative study, the goal of which was to acquire information on R&D activities in Polish businesses, their awareness of the R&D tax relief and their plans on using this incentive.

150 companies took part, from 5 sectors: food, pharmaceutical-chemical, waste management and energy and gas production, metal and non-metal processing and production of machines and devices. In these sectors, Research and Development should be an integral component of the company's operation.

Interviews were conducted with the CATI technique. Questions, depending on the size of the company, were answered by the managerial staff (CEO, General Director, Financial Director, Director/ Manager in charge of Development, Technical Director, Industrial Director) or the accountants.

For the needs of data analysis, for the total number of tested companies, we have used an analytical weight in relation to the structure of companies from given sectors in Poland: according to number of employees (small businesses: 20-49 employees, medium companies: 50-250 employees, large companies: over 250 employees) and form of ownership (companies with majority Polish capital, companies with majority foreign capital). Thanks to this, we have succeeded in obtaining information that takes into consideration the viewpoint of businesses from different sectors, of different sizes, we have also found differences in the approach to innovativeness between companies with majority Polish and majority foreign capital.

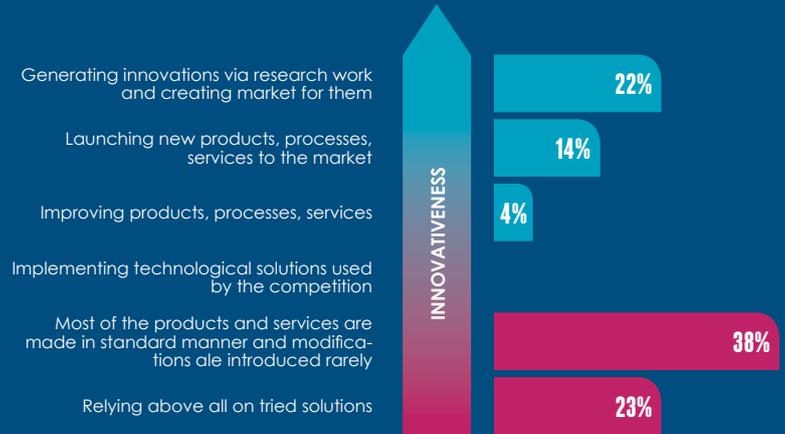


## > Key research conclusions

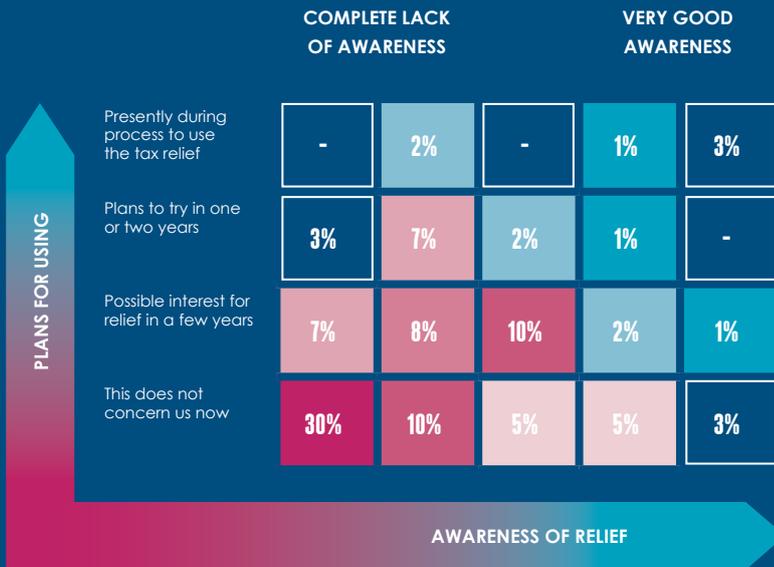
### Businesses still display a low level of maturity with respect to R&D activities

- Only 40% studied companies declare that they are active in R&D.
- 22% companies undertake the most profitable and simultaneously less certain R&D actions, which is generating innovations by research works and creating a market for them.
- Companies do not admit to the assertion that their actions are based above all on copying the competition.
- As many as 60% companies display no innovativeness.

### MATURITY OF COMPANIES WITH RESPECT TO R&D



### AWARENESS OF THE R&D TAX RELIEF AMONG BUSINESSES AND THEIR WILLINGNESS TO USE THE SOLUTION



### There is low awareness of the R&D tax relief in the market

- As many as 52% companies active in R&D declare a complete lack of, or poor awareness of the R&D relief.
- Awareness of the R&D relief is also very low among companies that conduct advanced research-development actions.
- Only 8% respondents know the mechanism of the R&D relief and are also preparing themselves for using the incentive or planning to use it in the coming two years.
- As many as 30% of the respondents from sectors that should be active in R&D, do not know the R&D relief mechanism and state that it does not apply to them.
- As many as 40% respondents declare interest in using the R&D relief. Most likely some of them need more information in this field, some need more motivation, perhaps in the form of a more attractive tax incentive.

### Continued development of the R&D tax relief is necessary

According to the respondents, there are 4 key areas that are limitations to the companies using the R&D tax relief. These areas are:

- unclear rules concerning the classification of R&D activities - 57%
- lack of the possibility to write off all the actual R&D costs - 51%
- not knowing that the relief is available and the details on how to use it - 48%
- too low value of the relief compared to the risk linked to investing in R&D activities - 47%

The study clearly indicates that companies need education on the available solutions.

The rules for classifying R&D activity need to be clear and accessible. There is also a need for continued development of the R&D tax relief, especially expanding the catalogue of eligible costs and increasing the generosity of the R&D deduction size.

## > R&D actions in the companies

### 1. How do companies understand R&D activities?

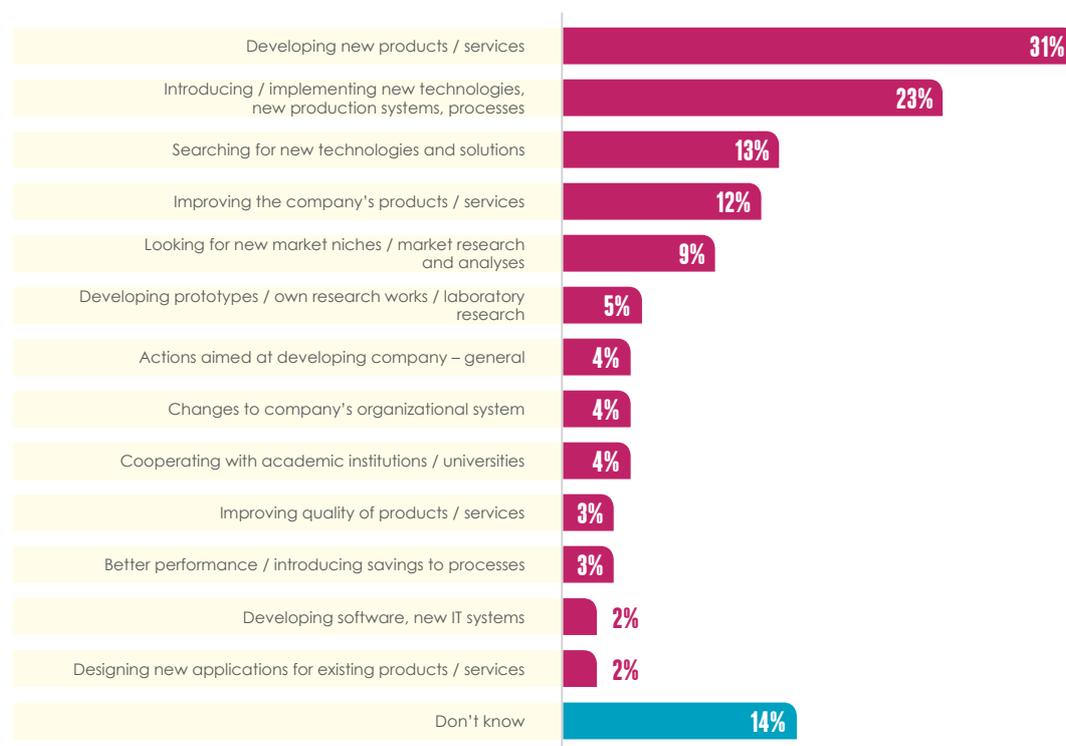
31% tested companies understand "research and development activities" as developing new products and services, and for 23% it is about implementing new technologies or production systems. Enhancing the current portfolio is qualified as R&D by 12% companies. Some businesses understand R&D as a very complex and advanced activity, above all as basic research (cooperating with scientific institutions, universities - 4%) and applied research (developing prototypes, own research work, laboratory research - 5%). Such activities include for example the works on graphene and blue laser. Associating R&D with such advanced projects means that companies are often unaware that certain standard actions performed within the company's regular

functioning also qualify as R&D work.

The basis for the activity of most companies is industrial research and development works. For example, companies that test new products in their own laboratories before they are implemented into production most often do not know, that according to the definition in the Frascati Manual (OECD handbook with standard procedures for statistical research in research and development), such actions are classified as industrial actions. If a company specializing in laying paver stones, does not have any engineer among its staff, but chooses to buy a machine that automatically lays the paver, then this can be considered developmental work, fully eligible for the R&D tax relief. Another development-oriented activity would also be launching a new type of material to the market – one that is produced in another part of the world. Even though these are not globally innovative actions, they do have tangible impact on growing that company's innovativeness and competitiveness.

#### HOW COMPANIES UNDERSTAND R&D ACTIVITIES

##### How do you understand the term "research & development" activities in the company?



Base: total sample N=150, encoded spontaneous answers

Interestingly, as many as 14% respondents are completely unaware of what R&D is. This means that some companies ignore this field of activity and are definitely unaware that their organizations are already performing R&D on a regular basis. This is surprising, especially as this research project focused on companies in sectors, where research and development

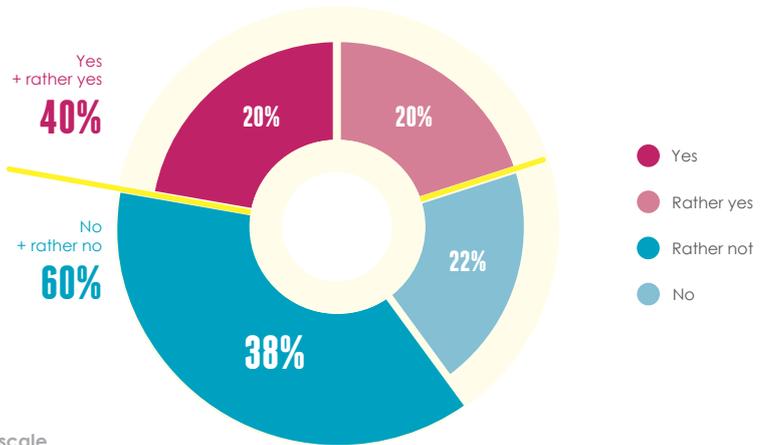
should be particularly significant. Whereas some of these companies most clearly feel no pressure of the market on increasing their competitiveness through innovation. One solution to this problem could be educating businesses on how innovativeness can influence the growth of companies and expanding the scope of the support – including bigger tax incentives.

## 2. Activity of companies in research and development

### ACTIVITY OF COMPANIES IN RESEARCH AND DEVELOPMENT

#### Would you describe your company as active in the R&D field?

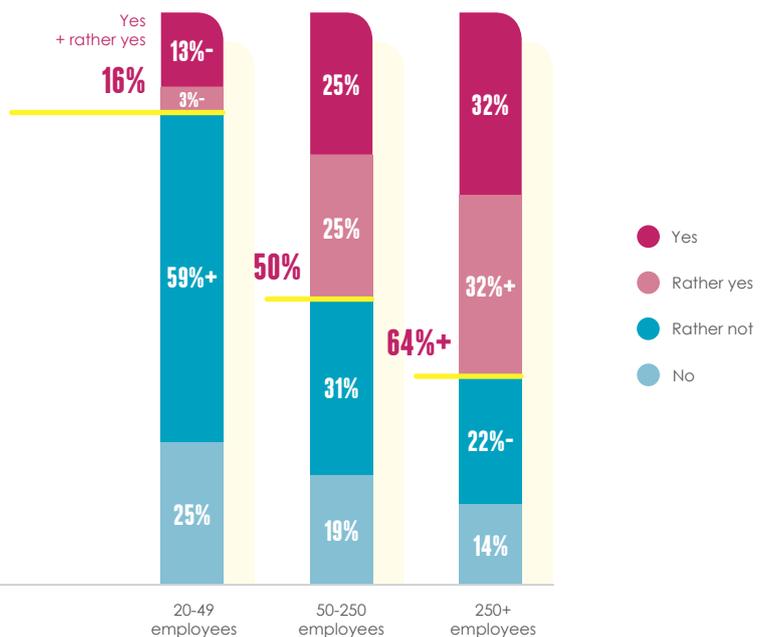
As many as 60% respondents declared that they are not, or are rather not active in the R&D field. Considering how the companies understand R&D activities, one can conclude, that some of these are unaware that they are already conducting R&D activities, and some have a limited capability to carry out R&D. Many companies know how to increase their innovativeness, but probably lack of resources or a sufficiently strong external motivation (i.e. in the form of the pressure from the competition) lead them to not investing in innovation.



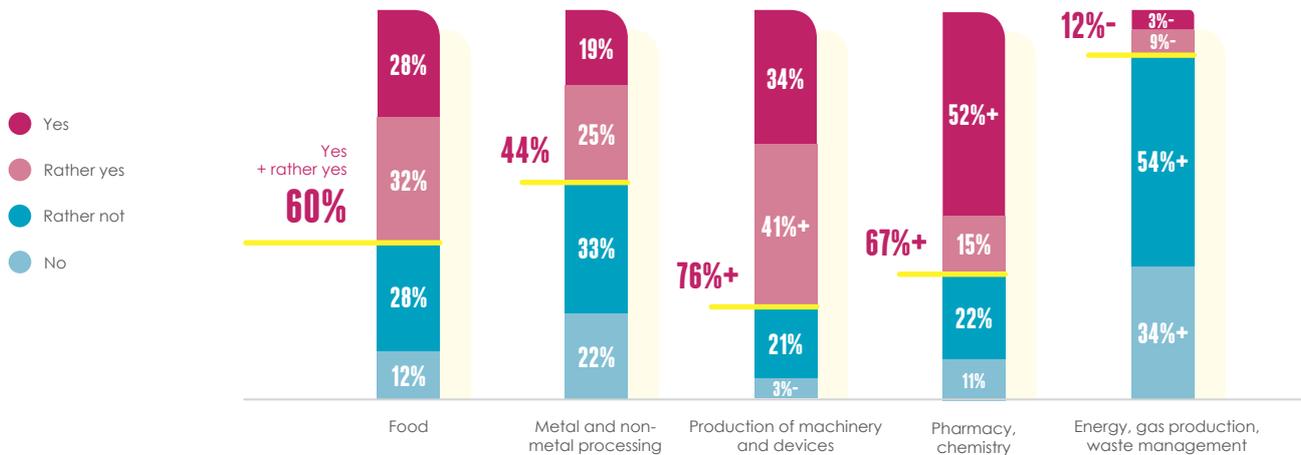
Base: total sample N=150, single-choice question, rating on scale

### ACTIVITY OF COMPANIES IN R&D - DEPENDING ON THE COMPANY SIZE

The number of employees is a factor that is closely tied to the company's R&D activity. Only 16% small companies declare to be active in R&D, whereas among large companies this figure amounts to 64%. Half of the medium-size companies do not do R&D. This shows that large companies are most often the driving force behind actions aimed at increasing the innovativeness of the Polish economy. However, it also needs to be borne in mind, that due to the complex structures and rich experience, they can also be more aware of R&D than the SME sector.



## ACTIVITY OF COMPANIES IN R&D - DEPENDING ON THE SECTOR



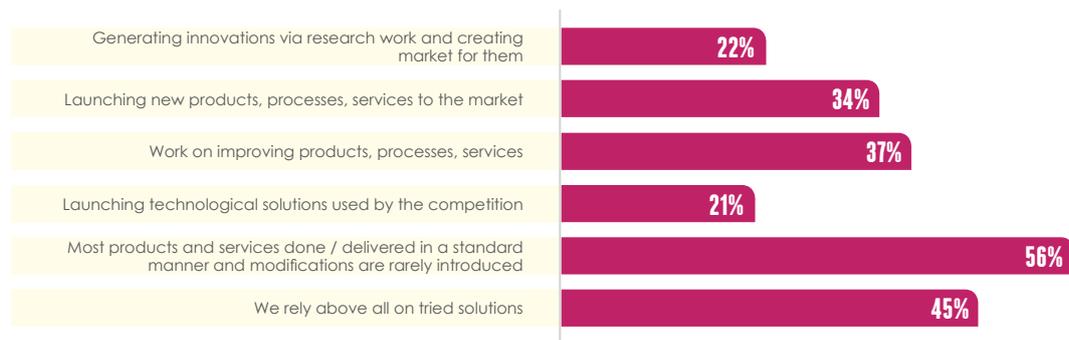
The highest activity in R&D can be seen in companies that manufacture machines and devices (76%) and in the chemical and pharmaceutical sector (67%). The least innovative ones are energy and waste disposal companies. What is the most surprising, is that only 12% of them declare to do any R&D – this figure is 6 times smaller than in the case of machine and device

production. In the meantime, obtaining green energy, improving the efficiency of transferring energy and incineration, but also recycling, are all innovative activities that should be an integral part of their business. Does this mean that these business do not conduct such activities, or perhaps they are unaware that they can be classified as R&D?

## 3. Types of activities undertaken by companies

### TYPES OF ACTIVITIES UNDERTAKEN BY COMPANIES

Which of the types of activities do you do at your company?

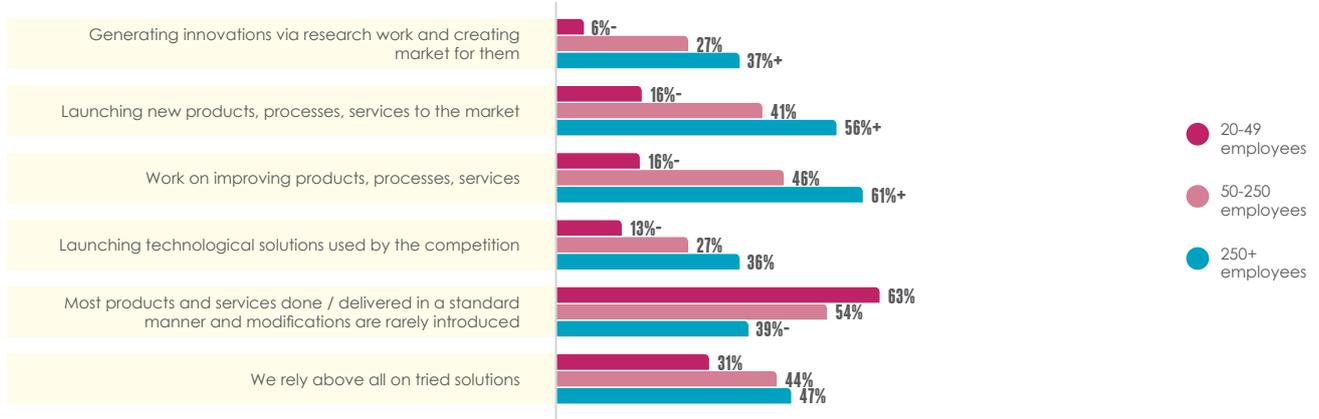


Base: total sample N=150, multiple choice question

56% respondents indicated that most of their products and services are made / provided in a standard manner and that innovations are rarely implemented. Generating innovations via research work and creating the market for them – the most profitable, but also the most uncertain part of R&D, is undertaken relatively rarely by companies (22% respondents). Why is that so? One has to bear in mind that the accumulation of capital in Polish companies is not

on the same level as in western companies. Polish entrepreneurs therefore do not have such resources at their disposal that they could risk. At the same time, companies with majority western capital operating in Poland, have their R&D centers in the West. They above all move their production lines to Poland, which is due to low labor costs, and their main investments are into purchasing machines.

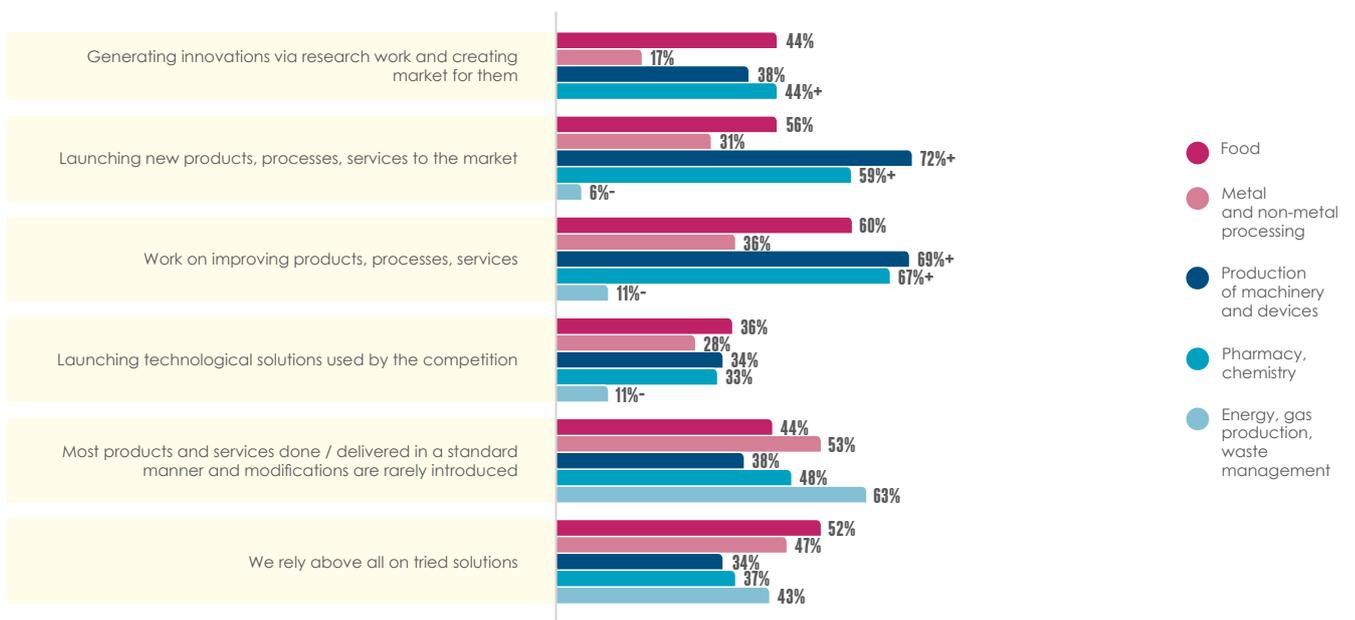
**TYPES OF ACTIVITIES UNDERTAKEN BY COMPANIES - DEPENDING ON THE COMPANY SIZE**



The most uncertain R&D activities (generating innovation through research work and creating a market for them) are undertaken mainly by large companies (37%). Most of them launch novelties to the market (56%) and improve their products,

processes and services (61%). As many as 63% small companies and 54% medium companies declare that most of their products and services are made/ provided in a standard manner and that modifications are rarely implemented.

**TYPES OF ACTIVITIES UNDERTAKEN BY COMPANIES - DEPENDING ON THE SECTOR**



Pharmacy and chemistry and the food sector are the most open to undertaking the highest-risk activities (generating innovations through research work and creating a market for them). At the same time, as many as 37% companies from the pharmacy and chemistry sector declare that they above all rely on tried solutions, which means that there could be issues with risk-taking even in such innovative companies. On the other hand, in the sector of energy

and gas production and waste management, which is characterized by very low R&D activity (12%), companies do not at all carry out activities linked to the highest risk, and as many as 43% of them rely on their tried solutions. This is perhaps why the Polish energy market still displays low efficiency compared to analogous markets in highly developed countries.

## 4. Categories of spending linked to research and development activities

### CATEGORIES OF R&D SPENDING IN COMPANIES

Based on your estimations what type of spending on R&D work is the highest in your company?

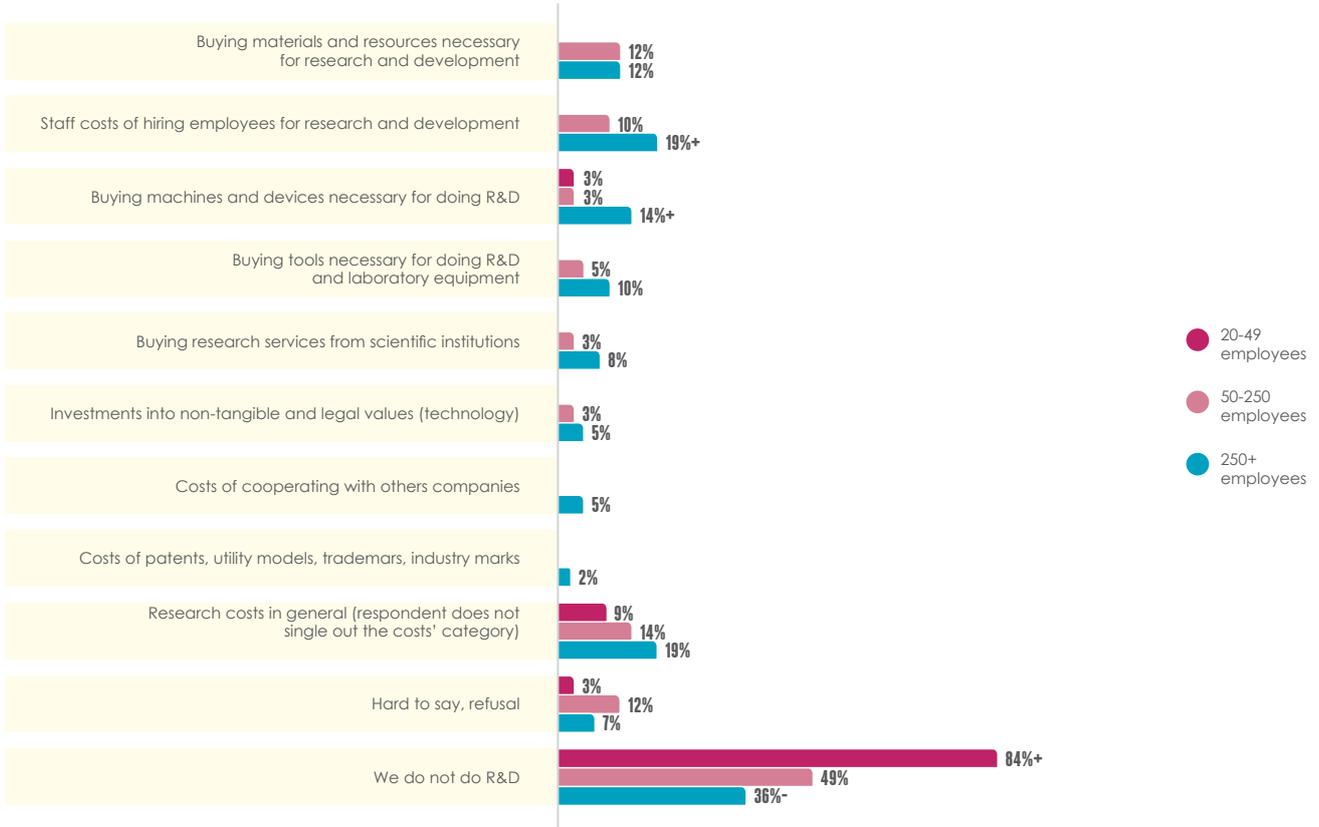


Base: total sample N=150, encoded spontaneous answers

According to the respondents, the biggest encumbrance linked to R&D is the purchase of materials and resources necessary for research and staff costs linked to performing R&D. It is important to note that 14% companies that conduct R&D do not single out individual types of costs of R&D. Companies do not have any need to analyze and categorize different groups of R&D investments because the R&D activity reports they submit to the GUS statistical office

do not translate into any benefit for the company. This situation may be changed by the R&D tax relief, which requires businesses to precisely classify the costs of their R&D activities. It needs to be borne in mind that analyzing processes with respect to R&D activities and keeping R&D investment records increases the level of an organization's maturity in conducting innovative activity.

**CATEGORIES OF R&D SPENDING IN COMPANY - DEPENDING ON THE COMPANY SIZE**



As many as 19% large and 14% medium companies do not single out different categories of R&D costs. If we consider that 14% respondents do not know what R&D activity is at all, and as many as 60% declare that their company is rather not active in this field, it may turn out that they do not categorize R&D costs because companies do not identify certain activities as R&D. Out of the respondents who do categorize their R&D spending, large companies more often consider

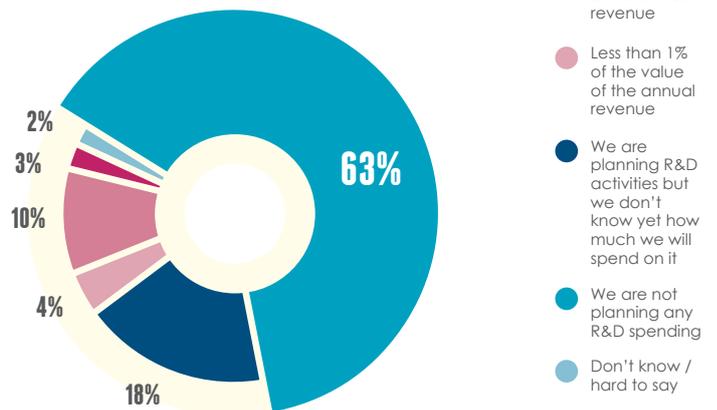
staff costs linked to hiring R&D employees a significant expense, furthermore they also mention investment into buying machines and devices necessary for conducting research. On the other hand, small companies mostly do not conduct research and the few companies that do, do not organize their R&D costs into categories. Only the large companies point out costs of patents, utility models, trademarks and industrial marks.

**5. Planned level of spending on R&D in 2017**

**PLANNED R&D SPENDING IN 2017**

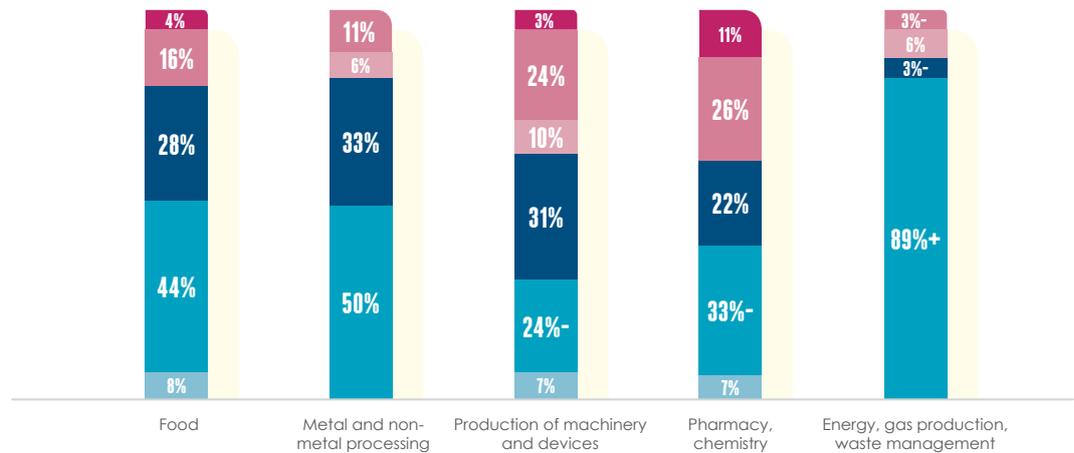
**What level of spending are you planning to make on research and development next year?**

63% tested companies are not planning any R&D investment in the next year. Out of the companies that are planning R&D activities, most businesses do not yet have detailed research budgets, and the most often mentioned level of spending on research is from 1% to 5% of the annual revenue. These figures are worrying, considering the fact that in order to make the Polish economy more innovative, increasing investments on R&D in the business sector is necessary.



Base: total sample N=150, single-choice question

**PLANNED R&D SPENDING IN 2017 - DEPENDING ON THE SECTOR**

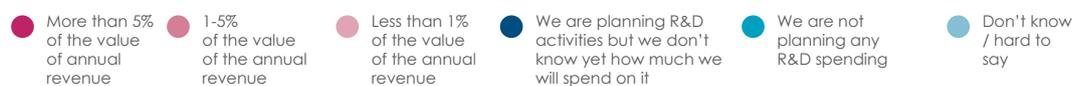
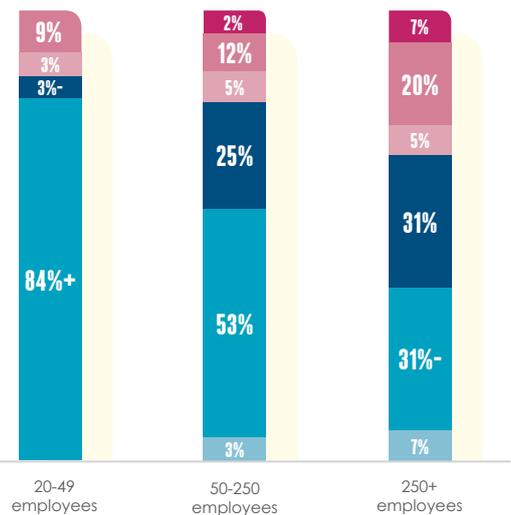


Highest planned investment into R&D – over 5% of the annual revenue, is declared by tested companies from the chemical-pharmaceutical sector (11%), food sector (4%) and production of machines and devices (3%). 89% energy and waste processing companies are not planning any R&D spending. And after all, these

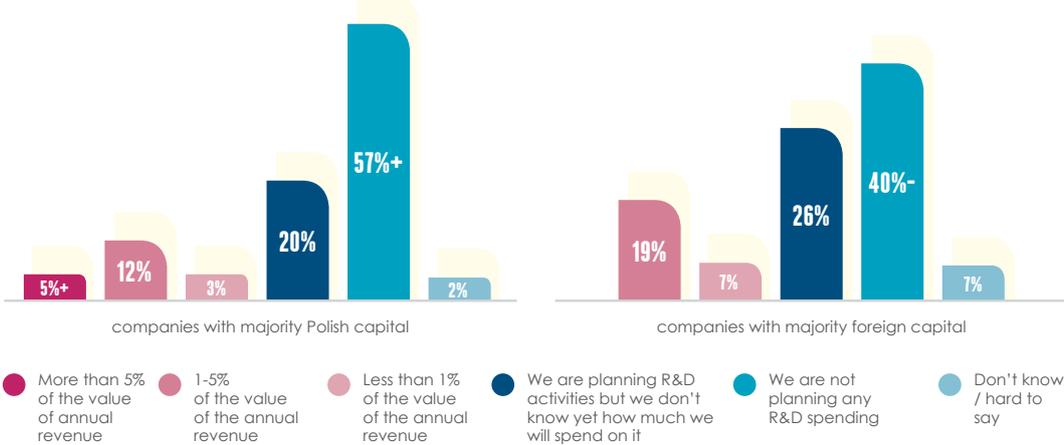
sectors should be investing in recycling and renewable technologies. Does this mean that this sector requires additional motivation? Or perhaps focus needs to be placed on educating about what R&D actually is?

**PLANNED R&D SPENDING IN 2017 - DEPENDING ON THE COMPANY SIZE**

The planned level of spending on research and development activities is strictly tied to the size of the company. On one hand, 84% small businesses are not planning any R&D investments in the next year, but on the other 31% large companies make the same declaration. These findings are coherent with the data from the GUS report: "Nauka i technika w 2014 r." ("Science and technology in 2014"), according to which enterprises hiring over 500 people make the largest investments in research.



**PLANNED R&D SPENDING FOR 2017 - COMPANIES WITH AN ADVANTAGE OF POLISH VS FOREIGN CAPITAL**



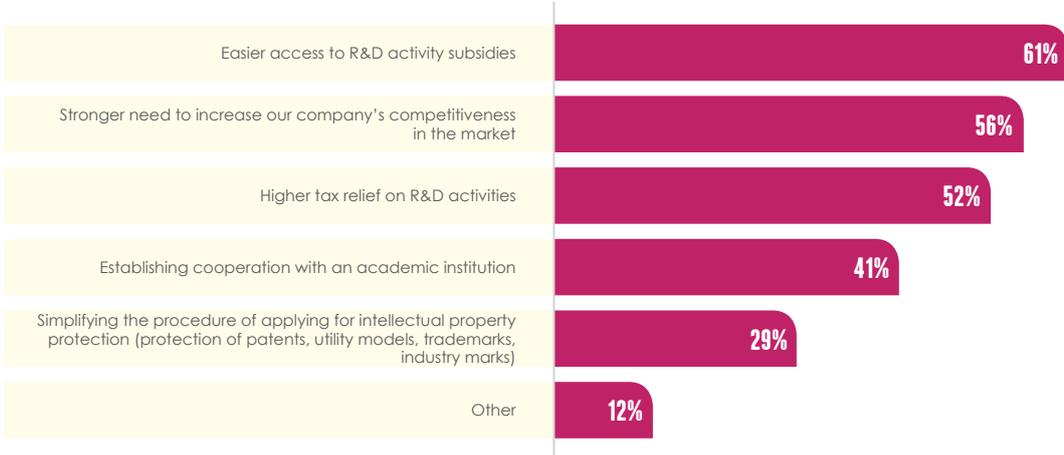
What is interesting, significantly fewer companies with an advantage of Polish capital vs. companies with an advantage of foreign capital are planning investing in research and development in 2017. However, if a majority-Polish capital company is indeed planning to have such a budget, then it usually declares to invest more than 5%

annual revenue for this goal, which is more than the majority foreign companies. The reason for this could be that Polish companies have low starting capital compared to foreign corporations, so every investment they make in R&D is a vast one. At the same time, large investments are done much less often than small ones.

**6. Factors contributing to increasing R&D spending**

**FACTORS CONTRIBUTING TO INCREASING R&D SPENDING**

**What can encourage you most to increase R&D spending?**

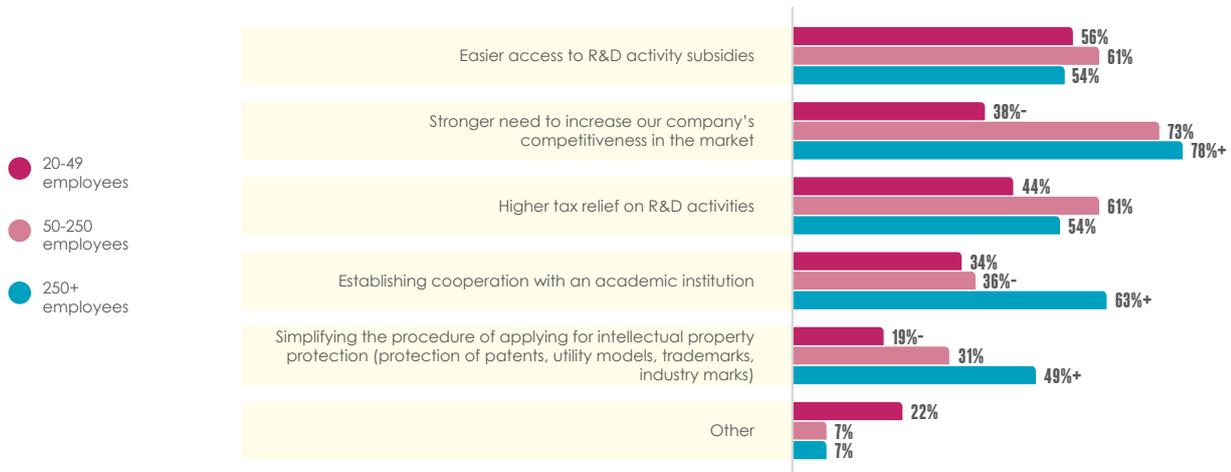


Base: total sample N=150, multiple choice question

How to motivate companies to increase their R&D spending? It appears that the factor mentioned most often by respondents that could help increase their company's R&D spending is easier access to R&D subsidies (61%). For the companies participating in the study, this factor is even more important than the strong necessity to increase one's competitiveness in the market (56%). More than half of the tested

companies mention higher tax relief on R&D as a factor that can positively influence an increase in R&D spending. Even though the tax relief on R&D has been available in Poland only since the start of 2016, already now it is becoming a very significant instrument for stimulating innovativeness of Polish business.

## FACTORS CONTRIBUTING TO INCREASING R&D SPENDING - DEPENDING ON THE COMPANY SIZE



For medium and large companies, the need to increase competitiveness is much more often an important reason why they should invest more in R&D than in the case of the small companies. Large companies significantly more often than other businesses would find it compelling to cooperate with academic institutions. However, one has to bear in mind that academic institutions as a rule conduct high-level research (basic and applied research) and look for companies

for commercializing their research. From the viewpoint of a company, implementing research results into production requires vast investment and is a high-risk undertaking. The costs of cooperating with academic institutions are high, and the smaller the company, the smaller their capital on uncertain investments. Perhaps this is why it is usually the larger companies that choose to cooperate with academic institutions.

## FACTORS CONTRIBUTING TO INCREASING R&D SPENDING - COMPANIES WITH MAJORITY POLISH VS FOREIGN CAPITAL



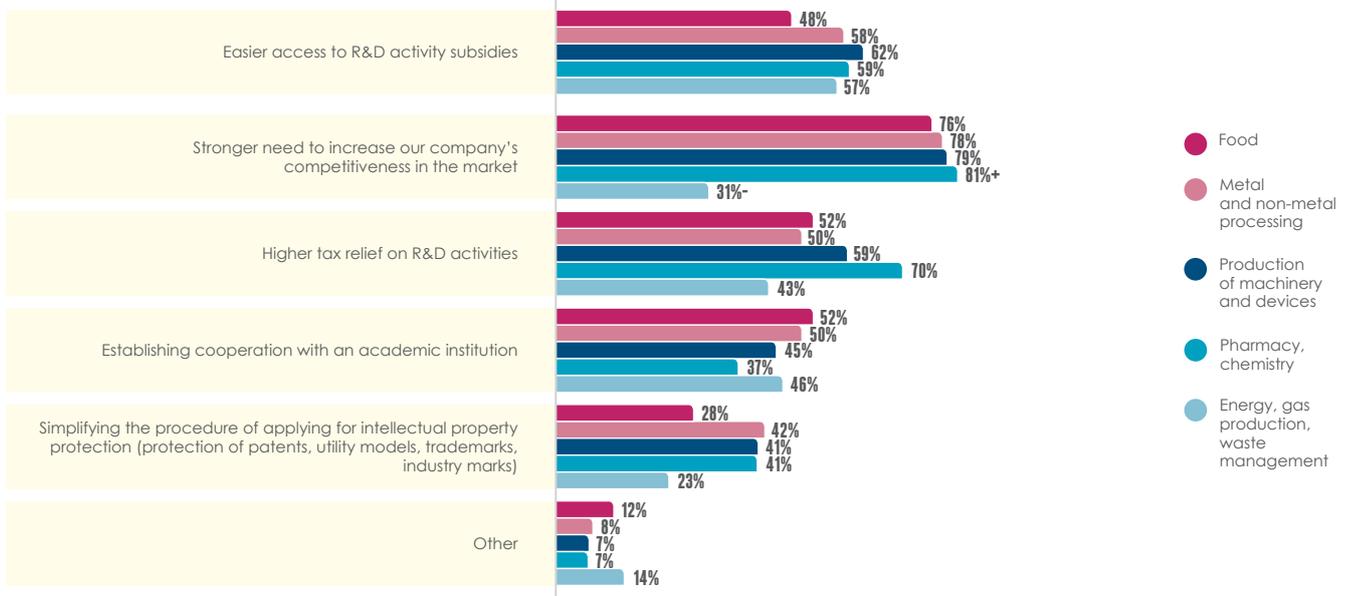
Companies with majority foreign capital, much more often than majority Polish capital companies mention a strong need to boost the company's competitiveness in the market as an important element that motivates increasing spending on research and development. This is due to the higher level of maturity in the field of innovation, pursued by the policies of highly developed countries. In the west, the need for ongoing development and innovativeness are part of the genotype of businesses – in Poland we are only just learning this.

For Polish companies, a more compelling incentive to increase their R&D spending would be to offer easier access to subsidies on such activity. It needs to be noted that Polish companies find it much easier than foreign ones to obtain various types of subsidies or support such as i.e. technology credit. International companies rarely apply in the Polish market to receive EU subsidies, because such actions are undertaken above all in their original countries.

**FACTORS CONTRIBUTING TO INCREASING R&D SPENDING - DEPENDING ON THE SECTOR**

Chemical-pharmaceutical companies, more often than other sectors, indicate strong competition as a factor that motivates them to increase their R&D spending. The pressure of the competition is definitely weakest in the energy and waste management sector. This could be

due to the already high involvement of the state (especially in the energy market), which makes competition pressure a much less important factor than regulations implemented by official authorities.

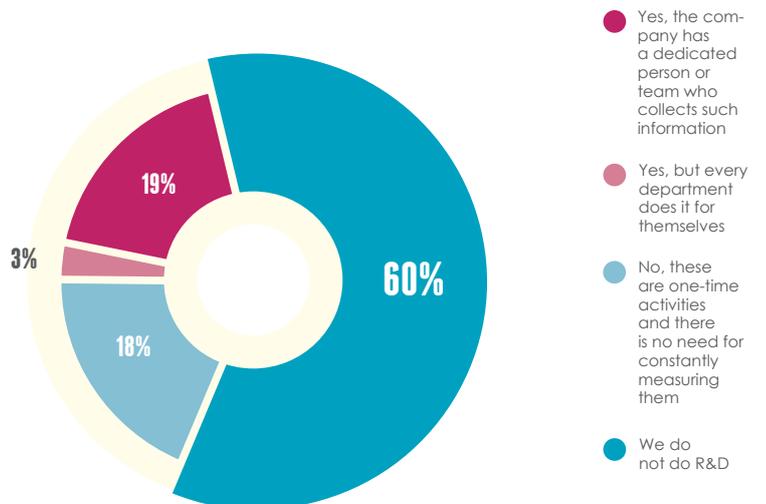


**7. Identification of R&D activities in the company**

**IDENTIFICATION OF R&D ACTIVITIES IN THE COMPANY**

**Does your company measure or identify research-development activities?**

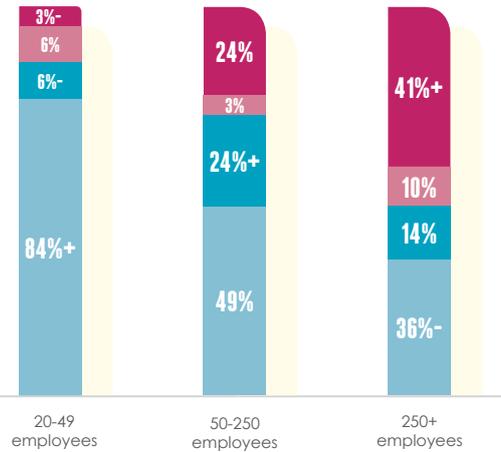
Only one in five companies has a dedicated person or department that identifies the R&D activities that are carried out. However, a similar number feels there is no need to measure research-development activities. Companies currently report their R&D activities to the GUS statistical office declaratively. It is not a requirement, so they are not motivated to conduct proper analyses. The lack of such analyses indeed brings about tangible losses for them, because without properly defining actions, projects and costs that are eligible for being deducted, they cannot use the R&D tax relief. The lack of any analyses or measures also translates into the performance of the company, which is unable to properly manage its resources. This is because if a company does not know how much they spend on R&D, then it is unable to develop any long-term strategy in this field.



Base: total sample N=150, single-choice question

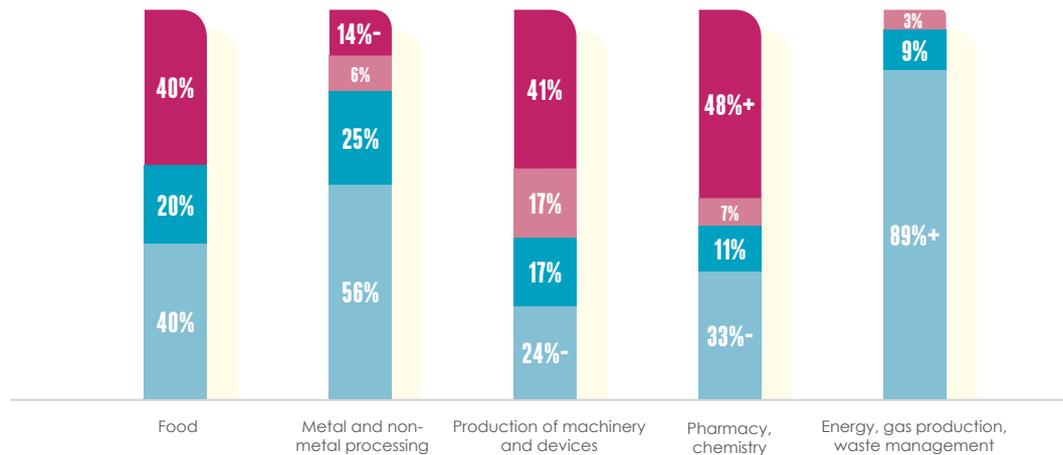
## IDENTIFICATION OF R&D ACTIONS IN THE COMPANY - DEPENDING ON THE COMPANY SIZE

First and foremost the large companies have dedicated people or departments that identify the R&D activities conducted. In medium-sized companies, the measurement of, similarly as the execution of R&D activities is mainly ad-hoc in character, whereas small businesses in a vast majority do no R&D.



- Yes, the company has a dedicated person or team who collects such information
- Yes, but every department does it for themselves
- No, these are one-time activities and there is no need for constantly measuring them
- We do not do R&D

## IDENTIFICATION OF R&D ACTIVITIES - DEPENDING ON THE SECTOR



- Yes, the company has a dedicated person or team who collects such information
- Yes, but every department does it for themselves
- No, these are one-time activities and there is no need for constantly measuring them
- We do not do R&D

First of all chemical and pharmaceutical companies have dedicated staff or a department that identifies their R&D activities. In the second R&D-active sector – machine and device production, responsibility for identifying R&D activities is not as clearly placed in the organization's structures.

An overwhelming majority of companies (81%) do not classify their actions as R&D. If such identification takes place, then it is scattered across the company.

Until the R&D relief was implemented, most companies in Poland had no strong motivation to record their R&D costs. At present, businesses that wish to use the relief are very quickly introducing mechanisms that allow them to analyze their R&D activity. This enables them to understand what benefits are linked to undertaking R&D actions. At the same time, this makes R&D into an integral part of the company's functioning, which positively translates into a business' maturity in the field of innovativeness.

# > Awareness and use of the R&D tax relief

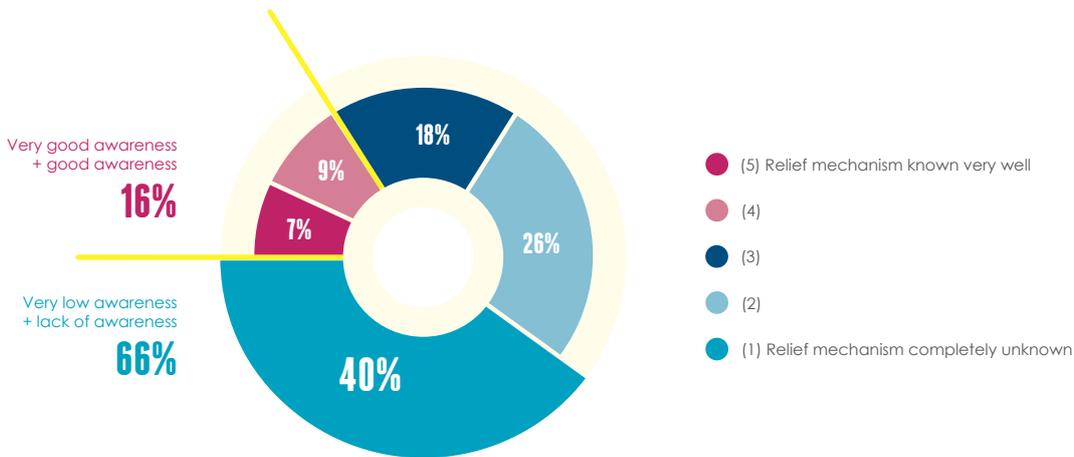
## 1. Awareness of the R&D tax relief

The R&D tax relief is a new mechanism for supporting innovativeness that has been made available for Polish businesses at the start of 2016.

After 10 months of the incentive's functioning in Poland, only 16% tested companies declare very good and good awareness of its mechanism. What is significant, a vast majority declare very low awareness, and 40% tested companies do not know the R&D tax relief at all! This clearly shows that there is still too little being said about the R&D relief. Entrepreneurs have at their disposal a tool that can support their R&D-aimed actions, but are most often not aware of it at all.

### AWARENESS OF THE R&D RELIEF

A tax relief was recently launched in Poland, allowing companies to deduct part of their R&D spending from the CIT tax. How well do you know this fiscal mechanism?



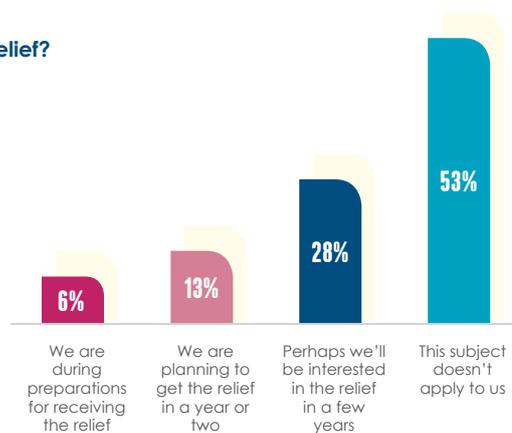
Base: total sample N=150, single-choice question, rating on scale 1-5

## 2. Planning to use the relief

### PLANNING TO USE THE RELIEF

How likely is it that you will be applying for that tax relief?

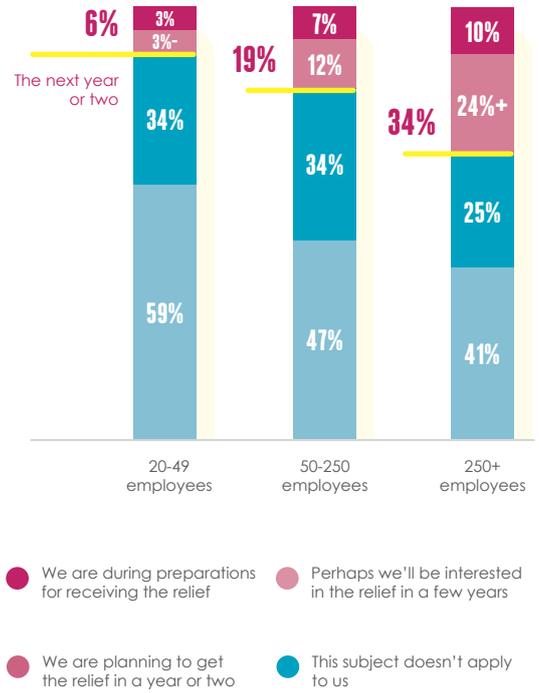
With its very low awareness, the low level of current use of this solution is understandable. Only 6% companies declare that they are currently conducting preparative processes to using the relief. A total of 19% respondents wish to apply for this relief in the coming year or two years. Because the relief is a new solution, many businesses are still distrustful of it.



Base: total sample N=150

## PLANNING TO USE THE RELIEF - DEPENDING ON THE COMPANY SIZE

Company size is a factor closely tied to the planning or non-planning to use the R&D tax relief. One in 10 companies with over 250 employees is in the process of preparing to use the R&D relief, and in total 1/3 of them are planning to do it in the next two years. The small proportion of companies planning to use the relief is above all due to the still low awareness of this form of support. In other cases, one has to consider unclear definitions included in the text of the act, the few available legal interpretations and relatively low deduction value. The larger the company, the stronger the intent to use the relief. This is of course connected to complex structures in large companies and their experience (often global experience) in using tax incentives, which gives them a sense of safety in that they will properly calculate the relief. According to Ayming's findings, for small and medium-size businesses, the lack of experience, resources, the ambiguity of legal provisions and concerns linked to their wrongful interpretation often discourage from using the relief.



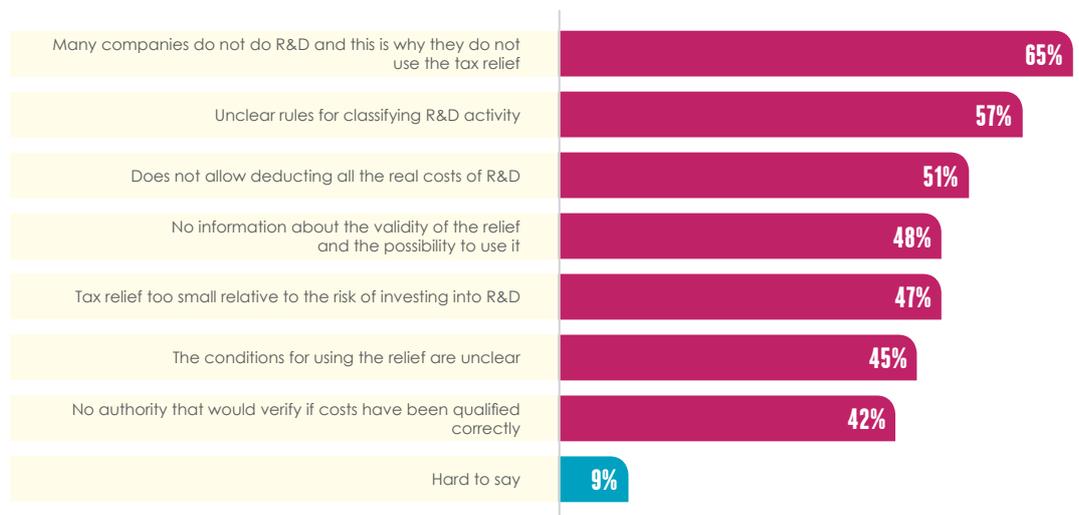
### 3. Perceived barriers in using the R&D relief

Probably because of the poor awareness of the R&D relief mechanism, most companies are unable to spontaneously list possible issues that they may come across as they are applying

for the write-off. And when talking about support, they mainly indicate the barriers that apply to conducting R&D, not using the relief. The perception of barriers is similar across the tested sectors.

## PERCEIVED BARRIERS TO USING THE R&D TAX RELIEF

What limitations or concerns do you think businesses can have about using this relief?



Base: total sample N=150, multiple choice question

What is interesting, as many as 51% medium-sized companies indicated that the lack of an authority that would verify the correctness of the costs deemed eligible can be an obstacle to using the R&D relief. Taking into consideration the global trends in the development of R&D tax incentives, and the already seen needs in the market, soon there should be a necessity to create a dedicated cell that will devise specific guidelines on the eligibility of R&D activities. The currently used definition of R&D activities is very general. Much more information on this subject can be

found in Frascati Manual and Oslo Manual handbooks, information made available by the National Center for Research and Development, or the approach to R&D of the GUS Central Statistical Office. All these should also become points of reference when the tax authorities define a given activity as R&D.

48% respondents mention the lack of information on the availability of the tax relief and the possibility to use it, and this clearly indicates that there is a need for educating the market in this field.



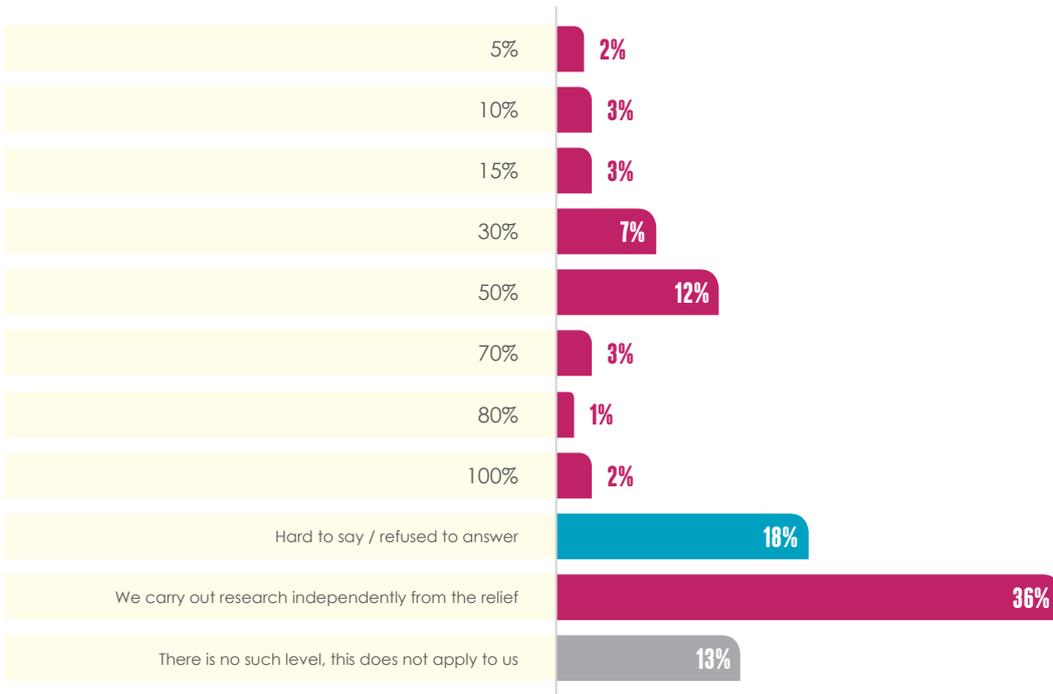
#### 4. Investing in R&D activities and tax relief

33% studied companies declare that an R&D tax relief would encourage them to conduct R&D. The average level of the minimal tax-deduction of R&D costs incurred by the company that the businesses expect is 40% - which means

the refund of nearly half of the investment. In such a scenario, with the tax level at 19%, the size of the relief would need to amount to approximately 200%.

#### EXPECTED MINIMUM SIZE OF DEDUCTION OF R&D COSTS

What is the minimum tax deduction of the R&D costs that would encourage you to do R&D? Please provide a figure in percentage values.



Base: total sample N=150, encoded spontaneous answers

## 5. Increasing investment on R&D and tax relief

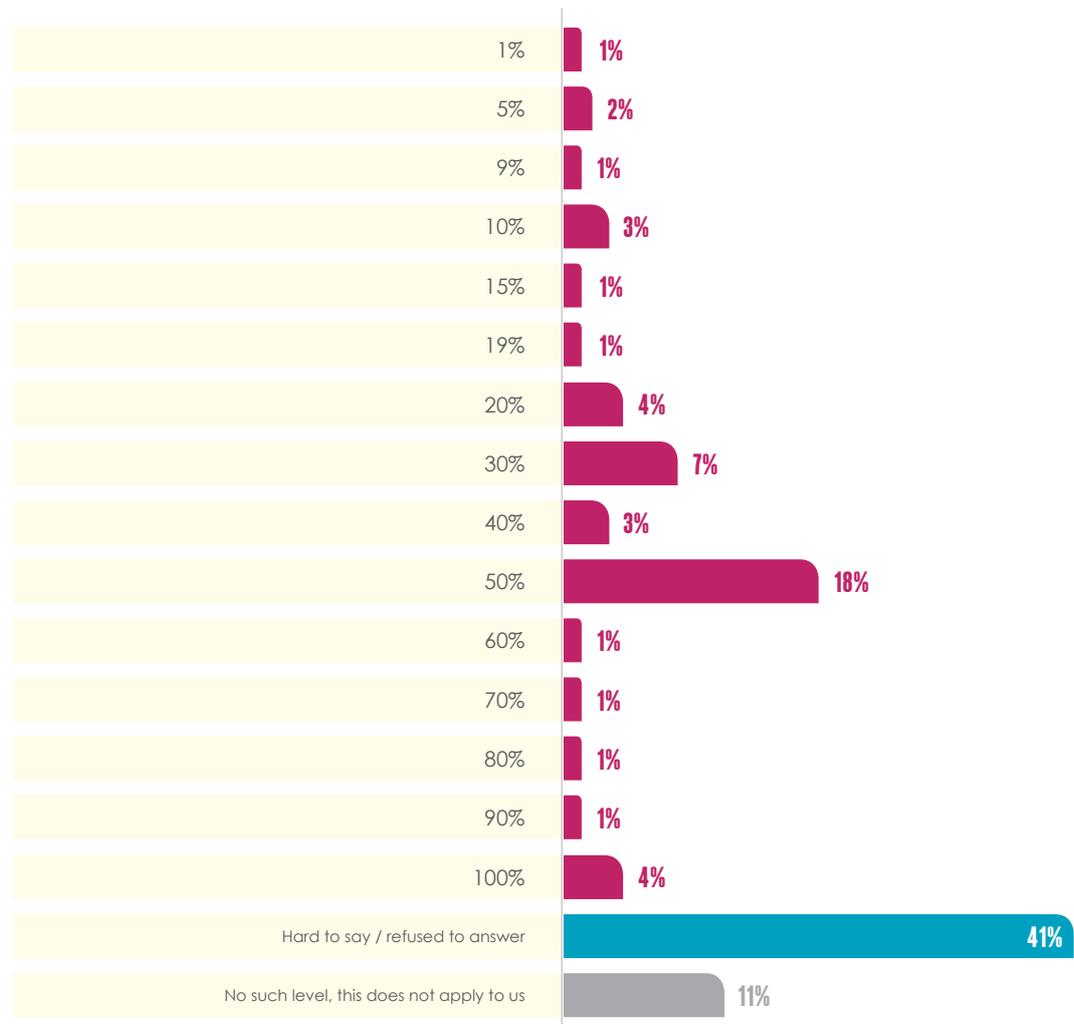
45% companies declare that a R&D tax relief would encourage them to increase their R&D spending. These companies expect a 42% deduction of the costs of R&D investments. In order for a business to indeed receive such a refund, the size of the relief would need to be 200%. This is the size of the R&D tax incentive in Estonia, a country with vast real GDP growth, which remains the leader in innovativeness among Central and Eastern region countries. In the "Global Innovation Index

2016" ranking, Estonia was the only CEE country included in the group of 25, most innovative countries. Setting the size of the tax relief on such a level would allow to fully tap the potential dwelling in Polish companies.

To 43% companies, in case of an increase in deduction of costs of R&D, increase in R&D spending would amount to 38pp on average.

### INCREASE IN THE AMOUNT OF THE DEDUCTION OF COSTS INCURRED ON R&D AND INCREASE IN SPENDING ON R&D

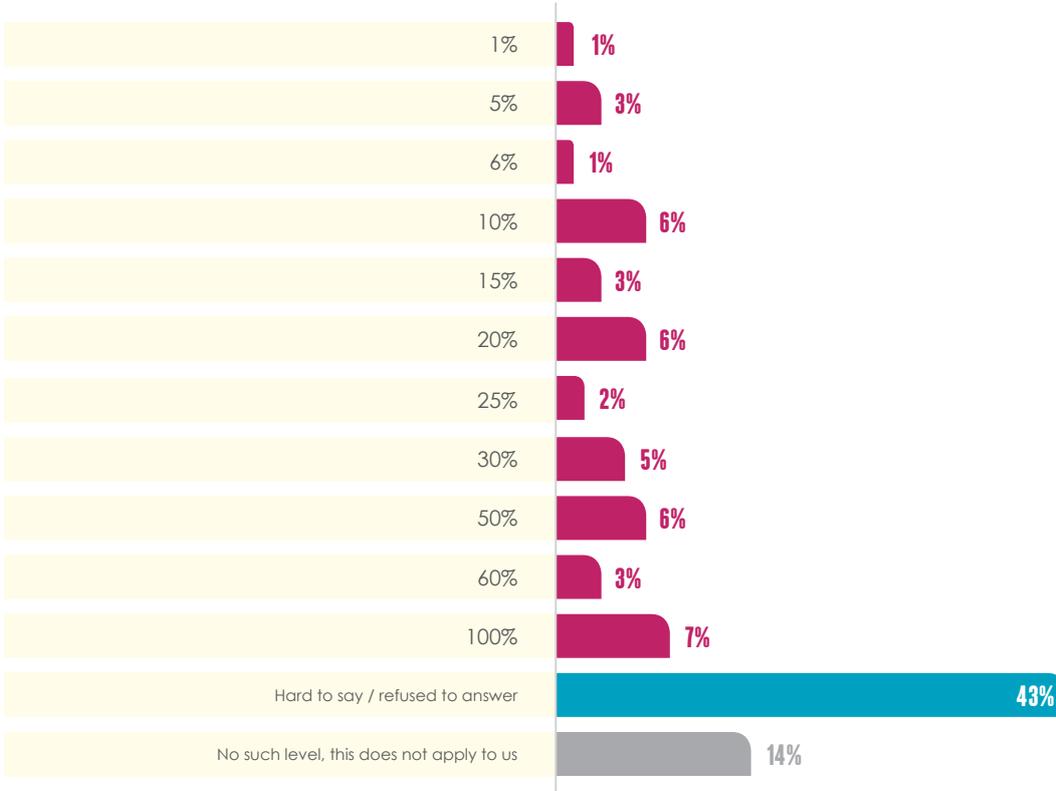
What size tax deduction of R&D costs would encourage you to increase R&D spending? Please provide a figure in percentage values.



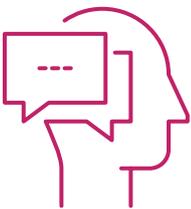
Base: total sample N=150, encoded spontaneous answers

**% INCREASE IN EXPENDITURE FOR R&D**

By how much % would you increase your R&D spending then?



Base: total sample N=150, encoded spontaneous answers

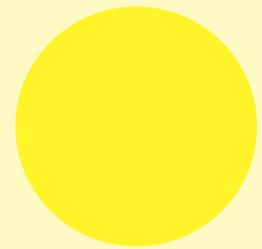
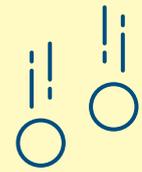


**Wojciech Arciszewski,**  
**Financial Director, Lesaffre Polska S.A.**

*Innovativeness and growth is the strategy of the Lesaffre global group. In the times of competitive struggle this always pays, as it enables offering more and more modern and better-quality products, best suited to the needs of customers. Lesaffre Polska benefits greatly from such a strategy, realizing of course that the opportunities were much bigger, especially in the context of the new income tax incentives. When we were preparing for using the relief, our main issue was the regulations themselves and the lack of clear interpretations on their application. This is why we have chosen to cooperate with a professional partner who helped organize our knowledge and directed our actions to maximally use the relief.*



# How to encourage companies to increase their R&D spending?



## ► Developing the R&D tax relief

The role of the R&D tax relief is to encourage companies to increase their innovativeness and to reward them for doing R&D by reducing their tax burden. Innovativeness, stimulated by the R&D relief, is aimed to increase the competitiveness of businesses and speed up their development. As the research has confirmed, continued development of the R&D relief is necessary, especially with respect to expanding the catalog of eligible costs and increasing the generosity of the R&D relief.



## Expanding the catalogue of eligible costs by tools directly tied to R&D and laboratory equipment that does not qualify as a fixed asset

The catalog of eligible costs should be expanded by purchasing tools directly tied to R&D and laboratory equipment that does not qualify as a fixed asset, like i.e. test tubes or optical glass. Today's catalogue of eligible costs includes materials and resources directly tied to R&D activity. However, one has to bear in mind that the prototype of a new product (often consisting of raw materials), can usually not be made without a mold. Therefore, often it turns out that buying a mold exceeds the cost of buying the raw material – hence it has a higher share in the costs of prototype production. Such situations take place among others in plastic processing and geology. In these and many other sectors, it is impossible to conduct R&D works without the proper tools.

## Increasing and balancing out the size of the deduction

Most European countries have had research and development tax reliefs for long, often on the level of at least 100% of the eligible costs. The effectiveness of the incentives and tax systems of R&D tax reliefs should be evaluated in comparison with the CIT rate. The R&D tax relief level is still low compared to other countries, including the CEE region.



### COMPARISON OF THE % GENEROSITY OF THE R&D TAX RELIEF

COUNTRY	R&D TAX RELIEF	CIT	% GENEROSITY
Portugal			<b>32,5%</b>
Spain			<b>24-42%</b>
France			<b>30%</b>
UK (SME)	<b>130%</b>	<b>20%</b>	<b>26%</b>
UK (LARGE)			<b>11%</b>
Croatia	<b>75-150%</b>	<b>20%</b>	<b>15-30%</b>
Romania	<b>50%</b>	<b>16%</b>	<b>8%</b>
Czech Republic	<b>100%</b>	<b>19%</b>	<b>19%</b>
Slovakia	<b>25%</b>	<b>22%</b>	<b>5,5%</b>
Hungary	<b>100%</b>	<b>19%</b>	<b>19%</b>
Lithuania	<b>200%</b>	<b>15%</b>	<b>30%</b>
Latvia	<b>100%</b>	<b>15%</b>	<b>15%</b>
Poland (staff costs)	<b>30%</b>	<b>19%</b>	<b>5,7%</b>
Poland (SME)	<b>20%</b>	<b>19%</b>	<b>3,8%</b>
Poland (LARGE)	<b>10%</b>	<b>19%</b>	<b>1,9%</b>

The size of the deduction should be raised to at least 100%. Moreover, the deduction level on all eligible costs besides salary costs, for all businesses, should be the same. As this research has found, large companies are most often the driving force of actions towards increasing innovativeness of the Polish economy, this is why they should have access to just as large incentives as SMEs.

Perhaps it is advisable to model the solutions from Hungary and to introduce an additional deduction rate in the case of a private-public partnership, which will strengthen the cooperation between these sectors. Companies that are cooperating with universities, polytechnics and other research-academic institutions should be additionally incentivized.



Source: Ayming Polska analysis, 2016

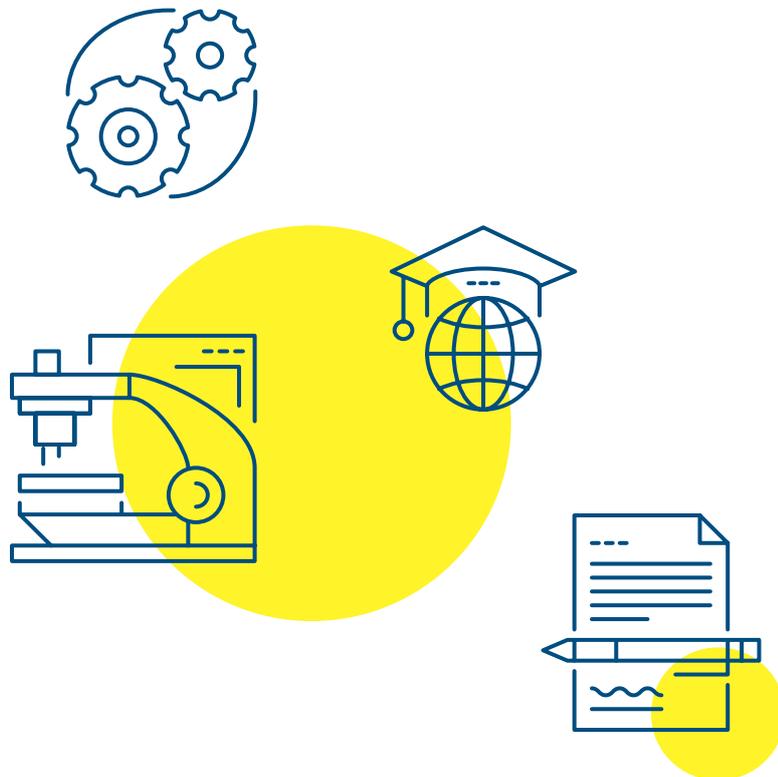
## Including the part of the company that operates beyond a Special Economic Zone (SEZ) in the R&D tax relief

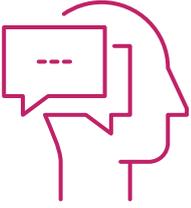
According to the current provision of article 18d, par. 6 CIT and 26e par. 6 PIT of the Corporate Income Tax Act "the payer is not eligible to a tax deduction, if in a given tax year they conducted business in a special economic zone based on the proper permission". This means that R&D tax relief does not apply to the part of the company that is also located outside the SEZ and pays income tax – meaning that it cannot use the tax exemption in this part. It is important to take note that SEZs were created in Poland to attract investments to specific places in Poland and to concentrate industries in regions intentionally selected for it. The part of the company that operates outside an SEZ and is not included in the permission to do business in the SEZ is very often the Research and Development center. R&D centers are most often located close to the head offices of companies or in academic centers close to the universities that the business can enter into cooperation with.

The current wording of article 18d, par. 6 CIT and 26e par. 6 PIT needs to be made more specific, so that not just the part of the company operating in the SEZ with the proper permission can use the tax relief. The activity of the business outside the SEZ is now taxed on general rules. In connection with this, companies not covered by the permission and operating outside the SEZ should be allowed to use the tax relief. This way, a company that has a production center in the SEZ, and other sections of the company outside the SEZ (including for example a R&D center) will be eligible for a R&D tax deduction.

## Universities being obliged to invest in research and commercialization

A good idea, to be implemented in 2017, is a requirement for the institutions of higher education to set aside 0,5% of their financial resources for maintaining their research potential for research commercialization. Thanks to this solution, scientific concepts would be implemented in companies, thus positively impacting the cooperation between science and business. In the case of academic institutions operating in key industries, the spending on commercializing research could be larger, to enable promoting strategic sectors of the economy.





**Piotr Hawryluk,**  
**Director in charge of Technology-Trade, ZMK Wostal Sp. z o.o.**

*Investing in R&D allows ZMK Wostal to acquire new technologies, hence to expand the group of our services' recipients, it also helps cut production costs. In this context, we see high potential for the R&D tax relief. On one hand, it allows us to reduce costs of R&D linked to new implementations, on the other hand it motivates us to continue development-oriented projects. We are hoping that the state mechanisms for supporting innovativeness of companies will continue to be developed. Introducing contests for R&D projects and participation in investment costs could encourage us to increase our R&D spending.*



## ➤ Easier access to EU subsidies

As it has been shown in the research, for 61% respondents, easier access to R&D subsidies would be a proper incentive that could encourage them to invest more in R&D.

### Wider scale of innovativeness

In 2016 one can see a sizeable drop in the number of R&D projects submitted to central funds (POIR) and regional funds (RPO). This is particularly visible in the SME sector. The reason is that subsidies are given to projects with a minimum Poland-wide innovativeness scale, with R&D work conducted by a qualified staff, often from academic institutions. Businesses will be more willing to apply for EU funds, if the required innovativeness scale is verified to allow obtaining funds for projects whose results are innovative on a regional scale only. It is advisable to subsidize projects with a lower innovativeness scale, as they can become an impulse that would encourage entrepreneurs to expand their scale of innovativeness by conducting further R&D projects.

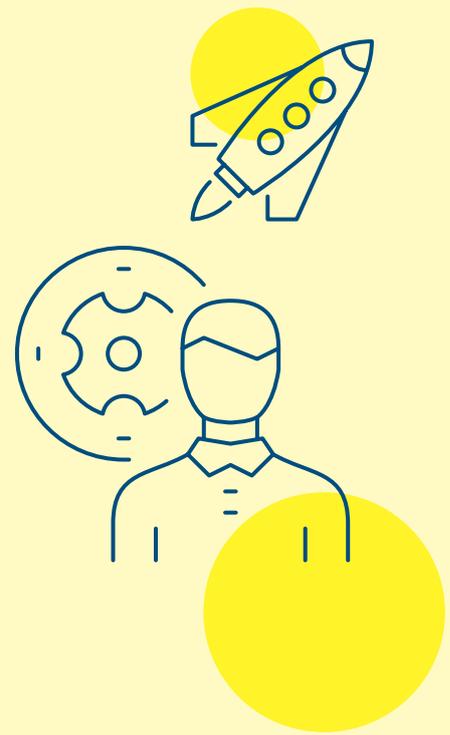
## Evaluation of results and potential, not of the methodology

It is often the case that the entrepreneur has a good idea, knows what the intended outcome to R&D is and can define the work stages and risks of each of them. The only problem is to fit the methodological requirements. In connection with this, at the stage of assessing the applications, it is advisable that they are verified from the viewpoint of their end results and whether they can be implemented, not with respect to their methodological correctness.

## Experience, not number of publications

Entrepreneurs often have qualified and experienced staff doing their company R&D. Despite this, they come up against the remark that their team is unfit for conducting a given project, because it does not include academics who can boast publications in specialized press or participation in scientific conferences. The potential of a company should be evaluated through the experience of the research team, not how many publications they have.

# Is the R&D tax relief worth using?



As many as 60% of the studied companies declared that they do not carry out R&D. Is that possible? It is, but only if we realize that businesses consider only technologically advanced solutions or world-class innovations to be R&D activity. Why? After all, R&D also includes simpler changes, like reducing the weight of a packaging, or using new materials for the production process. Changes, albeit not always revolutionary, have real impact on development and on growing a company's innovativeness. Since the start of 2016, R&D – advanced and completely basic, is rewarded with the possibility of writing off its costs. Why don't the companies use their chance to gain savings that they could use on subsequent investments? As many as 52% companies active in R&D declare that they do not know the R&D tax relief, or have poor awareness of it. This lack of awareness in fact means financial losses for the company and lower chances to implement future, bolder R&D actions.

The conducted study confirms our previous observations – too little is still being said about the R&D relief. It is a tool that can already now have a real impact on increasing R&D spending in the private sector. For this to happen, companies need to know about its existence and its mechanism. They also need to understand that it is affordable to use it already now. We need to remember that even though the current size of the actual deduction may seem low, with a large investment, a few percent can make a noticeable difference for the company. At the same time, the R&D tax relief forces companies to more deeply analyze processes, to organize work and keep records of costs, which translates into higher maturity of the organization and is a fundament for conducting more advanced R&D.

If we add to that a sense of safety linked to the possibility of using the relief regardless of the outcomes of R&D activities, it turns out that the tool has immense potential for stimulating the development of companies' innovativeness. This is after all how a competitive advantage is created and how even better financial performance is acquired!

As any tool, the R&D relief also has its limitations and room for further development. It is clear that the larger the relief, the wider the range of eligible costs is and the better the availability of the solution, the faster innovativeness will develop in Polish companies. Prospects for beneficial chances are before us. Even though we still need to wait longer to achieve maturity of the R&D tax relief that would be comparable to that in the western markets, it is already important to acknowledge what is in the reach of all companies today.

In a dynamically changing market landscape, R&D actions increasingly strongly determine long-term development of companies and their competitiveness. Let us hope that the available tools for supporting development of innovativeness will already today motivate the private sector to draw attention to R&D and to notice the potential dwelling in raising business innovativeness. After all, the dynamics of the innovativeness increase of the Polish economy is largely dependent on the involvement of businesses.

---

**THE R&D TAX RELIEF**


---

## Benefits

### accessible solution:

for all companies that pay income tax (CIT/ PIT) and for those who:

- have R&D departments
- do not have R&D departments, but conduct R&D activities
- subcontract R&D to external institutions

### real savings:

allows writing off part of R&D costs from the tax base – in 2016 30% staff costs and 20% (SMEs) and 10% (large companies) of other eligible costs

### deduction quickness:

the tax relief can be used in the same year when the costs were generated

### safety:

eligibility for the relief does not depend on outcome of the R&D work – the relief rewards entrepreneurs who choose to do R&D, even when its results are not always certain

### availability:

using the relief does not depend on the level of innovativeness of R&D actions

### increasing company innovativeness:

thanks to reducing the tax burden – savings on new investments in innovations

## Opportunities

### soon:

expanding/ specifying the catalog of eligible costs – for a start from 2017 SME will deduct costs of a patent, utility model or industry mark

### soon:

increasing the size of the relief – already in 2017 50% staff costs (for all companies) and 50% (SMEs) and 30% (large companies) of other eligible costs

potentially approximating the size of the relief for all companies

potentially including part of the company that operates outside the SEZ with the relief

## Limitations

if a company does business in a SEZ, it cannot use the relief

R&D costs that the payer was refunded in any form are not eligible

limited catalog of eligible costs

## Challenges

keeping records of R&D costs – companies that wish to use the relief need to:

- map the R&D processes in the organization
- learn how to identify R&D actions
- establish R&D costs
- manage the categorization of costs that only partially qualify as R&D

# How to obtain the R&D relief?

## TO ACQUIRE THE R&D TAX RELIEF, THE COMPANY NEEDS TO:

1

specify if the company conducts research and development in accordance with the requirements of the act from September 25th, 2015 on the ammendement of some laws concerning support to innovativeness (Journal of laws, 2015.1767),



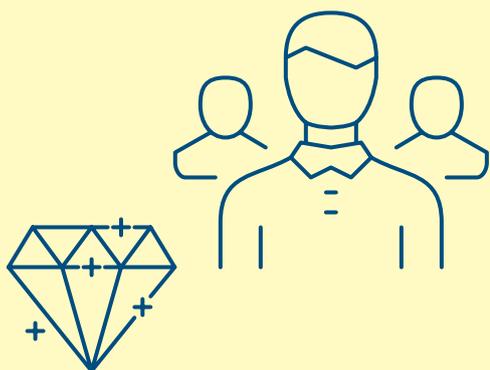
2

indicate the actions and the scope to which they constitute R&D activity,



3

attribute the eligible costs of the indicated activity to the tax relief.



## REFERENCES

- Narodowy Bank Polski, Potencjał innowacyjny gospodarki: uwarunkowania, determinanty, perspektywy, Warszawa, 2016 r.
- European Commission, European Innovation Scoreboard 2016, 2016 r.
- European Commission, Innovation Union Scoreboard 2015, 2015 r.
- Cornell University, INSEAD, the World Intellectual Property Organization, Global Innovation Index 2016: Winning with Global Innovation, 2016 r.
- Komisja Europejska, Horizon 2020 w skrócie, Luksemburg 2014 r.
- World Business, INSEAD, Global Innovation Index 2007: The Power of Innovation, 2007 r.
- GUS, Nauka i technika w 2014 r., 2015 r.
- GUS, Działalność badawcza i rozwojowa w Polsce w 2015 r., Warszawa, 2016 r.
- J. Maćkowiak-Pandera, E. Bayer, Gdzie się zmieści Polska w nowym modelu rynku energii UE, WysokieNapięcie.pl, luty 2016 r.
- Morawiecki: Rozwój w oparciu o niskie płace to droga donikąd, GazetaPrawna.pl, wrzesień 2016.
- Český statistický úřad, Nepřímá veřejná podpora výzkumu a vývoje v České republice 2014, Praga, 2016 r.
- Eurostat, www.ec.europa.eu
- OECD, Eurostat, Podręcznik OSLO, Zasady gromadzenia i interpretacji danych dotyczących innowacji, Warszawa, 2008 r.
- OECD (2015), Frascati Manual 2015: Guidelines for Collecting and Reporting Data on Research and Experimental Development, The Measurement of Scientific, Technological and Innovation Activities, OECD Publishing, Paris.

## CONTACT DETAILS

### **Małgorzata Boguszewska**

Manager: R&D Tax Reliefs & Grants

Tel.: +48 22 330 60 26

Mobile: +48 668 638 203

mboguszewska@ayming.com

### **Łukasz Radosz**

Sales & Marketing Director

Tel.: +48 22 330 60 18

Mobile: +48 662 298 435

lradosz@ayming.com

### **Paweł Perzyński, M. Sc., eng.**

R&D Consultant

Tel. : +48 22 223 66 23

Mobile: +48 668 638 243

pperzynski@ayming.com

### **Paulina Wiśniewolska**

PR & Marketing Manager

Tel.: +48 22 330 60 28

Mobile: +48 784 945 256

pwisniewolska@ayming.com

---

AyMING's report „R & D tax relief. Challenges, opportunities, solutions” contains only general information. This report, along with the opinions presented within it on various solutions and actions, is based on research conducted by Kantar Millward Brown on behalf of AyMING Polska as well as on data obtained from other sources. We assumed that the data from sources other than AyMING Polska are true. The analysis, comments and opinions presented in said Report are a kind of data interpretation and may not be understood as an analysis that would be applicable in each individual case or as specific advice regarding the activities of the enterprise. As such, no legal, financial or business decisions should be taken in regard to the activities of the enterprise solely on the basis of information presented in the Report – before taking any such decision we strongly advise to take advantage of individual and professional advisory services. AyMING Polska shall not be liable for any loss or damage sustained as a result of decisions being taken solely on the basis of data and solutions presented in the Report.



**ayming**



**Ayming Polska Sp. z o.o.**

ul. Moniuszki 1A, 00-014 Warsaw  
Tel.: +48 22 330 60 00, Fax: +48 22 330 60 10

