

# Research & Development Tax Relief in the Czech Republic

TAX

Research and Development (R&D) very often represents an activity, the result of which is uncertain, but which has a significant impact on the profitability of the company. Expenses incurred by Czech tax payers on their own R&D projects can be claimed as a special deductible item and deducted from the tax base in the amount of the R&D costs that are classified as eligible (in effect, the eligible R&D costs are deducted twice for tax purposes).

## What activities qualify as R&D projects?

The Income Taxes Act refers to the Act on Support of R&D, which defines R&D as creative work undertaken on a systematic basis in order to increase knowledge and the use of this knowledge, which includes an appreciable element of novelty, to resolve scientific and/or technical uncertainty. A written report must be prepared, documenting the given R&D project, which must contain all details required by law.

## How much tax relief is available?

R&D tax relief is granted in the form of a special item, deductible from the tax base, in the amount of the R&D costs that qualify as eligible. R&D costs are eligible and can be included in the

R&D tax relief for the given year if they are considered as costs that have been incurred to generate or maintain income and if they are recorded separately from other expenses.

**Eligible costs** can be, for example:

- direct costs (salaries of research workers and related social and health insurance, consumed material)
- tax depreciation of movable fixed assets used for R&D activities
- other operational expenses directly related to the R&D activities (books, magazines, electricity, heating, gas, telecommunication fees, water).

## In which tax periods can R&D tax relief be claimed?

The R&D tax relief can be claimed for tax periods commencing on 1 January 2005 or later. If a tax loss is suffered, or if the tax base is insufficient, the R&D tax relief can be carried forward up to three years.

## KPMG's R&D Tax Group in the Czech Republic

KPMG Czech Republic's extensive experience in the field of investment incentives has given rise to the R&D Tax Group, which is responsible for mapping this new area. KPMG is cooperating with the Ministry of Finance and the Czech Chamber of Tax Advisors and is thus actively involved in the current interpretation and resolution of issues relating to this new form of tax relief.



KPMG Czech Republic is also a member of the international KPMG R&D tax relief group and can draw on the experience of other offices in countries with a similar approach to R&D expenses (UK, France, Canada and USA).

### How can KPMG help?

The R&D Tax Group consists of tax professionals with a wide range of experience in investment incentives, tax and accounting. In close co-operation with the client's R&D personnel, we would carry out a review of whether and to what extent the client qualifies for R&D tax relief. As part of our work we would provide the following services:

- assistance in determining which activities may be considered as R&D activities
- help in identifying potential R&D costs that qualify for R&D tax relief
- we would assist with preparation of the proper documentation necessary to support the claim for R&D tax

relief (R&D projects, separate evidence of expenses, internal guidelines)

- in cooperation with your finance department, we would consider whether the current system of accounting for R&D projects complies with the tax and accounting requirements in respect of R&D
- we would consider the impact of State aid (R&D grants, grants for technological centres, investment incentives for manufacturing companies) on the entitlement to claim R&D tax relief
- in respect of foreign companies wishing to profit from Czech R&D tax relief, we can provide complex tax advice in respect of relocation and restructuring of your company's activities in the Czech Republic
- we would provide you with regular updates and information in the area of R&D tax relief.

### For more information please contact:

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