Outline of the FY2015 Revisions to the R&D Tax Credit System (1/2)

- The revisions drastically expanded tax credits for open innovation by significantly increasing the relevant credit rates and including IP royalties paid by SMEs as deductible expenses, with the aim of promoting open innovation (R&D utilizing external technologies and knowledge) by companies. The revisions also strengthened the national innovation system, under which companies (large, leading medium-sized, small and medium-sized and venture companies) can better fulfill their respective functions and organically collaborate with each other and with research institutes and universities, etc.

Outline of the revisions

- Drastically expands tax credits for open innovation (significantly increases tax credit rates, creates separate tax credit ceilings and expands deductible expenses) (permanent measures)
- Ensures a maximum tax credit of 30% where both the total R&D expense tax credit and the open innovation tax credit apply (25% for the former + 5% for the latter) (permanent measures)
- Abolishes the tax credit carryover system

New system

【For increases in R&D expenses】

Amount of increase in R&D expenses × increase rate (5% to 30%)

Select

【For high R&D expense ratios】

Amount by which R&D expenses exceed 10% of sales × credit rate (*1)

*1: (R&D expense percentage - 10%) × 0.2

<Tax credit ceilings> 10% of the corporate tax

<Applicable period> Until the end of FY2016

+

【For open innovation】

Special R&D expenses × 20 or 30% (*2)

Significantly increased credit rates (12% at present)

*2: Joint or contract research with universities and special research institutes, etc.: 30%
Between companies, etc. (**inclusion of IP royalties paid by SMEs**): 20%

Expansion of deductible expenses

Tax credit ceiling: **5% of the corporation tax** — Applicable period: Permanent

Up to 30% in total

Separation of tax credits for total R&D expenses and tax credits for open innovation initiatives

+

【For total R&D expenses】

Total amount of R&D expenses × 8% to 10%

12% without exception for SMEs

*** Abolition of the one-year tax credit carryover system**

Tax credit ceiling: **25% of the corporate tax** — Applicable period: Permanent

Outline of the FY2015 Revisions to the R&D Tax Credit System (2/2)

- To promote open innovation initiatives (systems to promote joint and contracted research), <u>tax credits for such initiatives were drastically expanded in FY2015</u>.
- Specifically, <u>tax credit rates were significantly increased (to 20% or 30%*), the tax credit ceiling for open innovation was separately set at 5% of the corporate tax, and deductible expenses were expanded to include IP royalties paid by SMEs (permanent measures)</u>.

* Joint or contract research with special research institutes, etc. (national research institutes and national R&D corporations) and universities, etc.: 30%; joint or contract research between companies (IP royalties paid by SMEs, etc.): 20%

- Accordingly, the **<u>Guidelines for Tax Credits for Open Innovation were revised</u>**.

	Before revision <Partners>	<Credit rates>		After revision <Partners>	<Credit rates>
Joint research	Special research institutes, etc. (*1)	12%	**Significant credit rate increases**	Special research institutes, etc.	30%
	Universities, etc. (*2)			Universities, etc.	
	Others (companies, private research institutes, etc.)			Others (companies, private research institutes, etc.)	20%
	Research and development partnerships			Research and development partnerships	
Contracted research	Special research institutes, etc. (*1)	12%	**Expansion of deductible expenses**	Special research institutes, etc.	30%
	Universities, etc. (*2)			Universities, etc.	
	SMEs			SMEs	20%
		8% ~ 10%	**Significant credit rate increases**	**Public interest corporations, local government agencies, local incorporated administrative agencies, etc.**	
IP royalties		8% ~ 10%	**Significant credit rate increases**	**SMEs**	20%

*1: R&D institutes, etc. under the Act on Enhancement of Research and Development Capacity and R&D incorporated administrative agencies

*2: Universities, colleges of technology, and inter-university research institutions