R&D Tax Incentives: France, 2019

Design features
France provides R&D tax relief through a volume-based tax credit - Crédit d’Impôt Recherche (CIR) - and an exemption from social security contributions (SSC) for young and innovative firms (JEI/JEU).

- The headline rate of the R&D tax credit is 30%, falling to 5% for R&D expenditure above the threshold of EUR 100 million.
- Unused tax credits are refunded in the case of SMEs; a three-year carry-forward is available for large firms. Any outstanding credits are refundable after that period.
- Different ceilings apply to subcontracted R&D, depending on the type of R&D service provider.

Table 1. Main design features of R&D tax incentives in France, 2019

<table>
<thead>
<tr>
<th>Tax incentive*</th>
<th>Crédit d’Impôt Recherche (CIR)</th>
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<tbody>
<tr>
<td>Type of instrument</td>
<td>R&amp;D tax credit</td>
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<td>Eligible expenditures</td>
<td>Volume based</td>
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<td>Headline rates (%)</td>
<td>30* (5 above EUR 100 million)</td>
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<tr>
<td>Refund and Carry-over (years)</td>
<td>Immediate (SMEs); after 3 years if any remaining tax credit (large firms)</td>
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<td>Ceilings</td>
<td>EUR 100 million (R&amp;D expenditure)</td>
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JEI: Young Innovative Firm; JEU: Young University Firm; PRO: Public Research Organization; SSC: Social Security contributions. France also offers an accelerated depreciation of machinery and equipment used in the process of R&D (declining balance method at a rate of 40%); ** 50 for firms in French overseas territories; *** Private subcontracted R&D expenses are capped at an amount equal to three times all other qualifying expenses with a limit of EUR 10 million. France also offers income-based tax incentives for outcomes of R&D activities. These are beyond the scope of this note.

Recent developments and trends
Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. France offers one of the most generous R&D tax incentives among OECD and partner economies. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in France is estimated at 0.41 (0.41), significantly above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.41 (0.34) in the profit (loss)-making scenario, well above the OECD median of 0.14 (0.10). These estimates focus on the R&D tax credit (CIR) and accelerated depreciation provision.

The generosity of R&D tax incentives has increased significantly in France over the 2000-2019 period. In 2004, the incremental R&D tax credit was extended to include a volume-based component. While the rate of the incremental tax credit was successively lowered over the 2000-2006 period, the rate of the volume-based credit was doubled from 5% to 10% in 2006. In 2008, the French tax credit became entirely volume-based and the tax credit rate was raised to 30% for eligible R&D expenditure up to EUR 100 million, leading to a substantial increase in the implied marginal tax subsidy rates estimated for firms in the profit (loss)-making scenario. Tax subsidy rates are identical for all types of firms in 2008 due to a temporary relief measure. In 2019, France reduced the statutory corporate income tax rate from 34.4% to 32%, reducing the value of baseline tax deductions and leading to a drop in the tax subsidy rates in each of the four scenarios considered. For R&D expenditure above EUR 100 million, a tax credit rate of 5% applies. If this threshold is considered in the modelling, the R&D tax subsidy rate for large firms drops from 0.41 (0.34) to 0.39 (0.32) in the profit (loss-) making scenario, while the one for SMEs, operating below this threshold, remains unchanged.

Figure 1. Implied tax subsidy rates on R&D expenditures: France, 2000-19


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific notes) based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief.

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As a temporary relief measure, SMEs and larger firms are both allowed an immediate refund of all unused credits related to the 2008 and residual claims from 2007, 2006 and 2005, instead of a 3 year waiting period. As a result, identical marginal tax subsidy rates are estimated for profitable and loss-making.

For more information, please visit: [http://oe.cd/rdtax]
Public support for business R&D: the policy mix

France is among OECD countries that provide the largest level of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.40% of GDP in 2016 (latest figure available).

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)

As a percentage of GDP

* Data on tax support not available. ** Data on subnational tax support not available


- From 2006 to 2016, government support for BERD as a percentage of GDP increased in France by 0.17 pp, while the OECD median (2006-2017) increased by 0.015 pp.
- From 2006 to 2016, business R&D intensity in France increased from 1.29% to 1.44%.
- In 2016, R&D tax incentives accounted for 70% of total government support for BERD in France.

Trends in government support for business R&D

Between 2000 and 2016, the importance of R&D tax support has increased significantly in France, both in absolute and relative terms.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, France, 2000-16

As a percentage of GDP, 2010 prices (right-hand scale)

The cost estimate of tax incentive support covers the R&D tax credit (CIR) and the SSC exemption (JE/I/JEU)


- The cost of tax support rose (in 2010 prices) from €30 million in 2000 to €6 014 million in 2016.
- As percentage of GDP, R&D tax support increased from 0.04% to 0.28% of GDP during this period.
- Direct funding of BERD, on the contrary, has remained fairly constant over the 2000-16 period, representing 0.13% and 0.12% of GDP in 2000 and 2016 respectively.
- The share of R&D tax incentives in total government support increased significantly over this period, amounting to 22% in 2000, 32% in 2005 and 70% in 2016.