

Tax News Bulletin

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Dutch Ministries of Economic Affairs and Finance to merge two existing R&D tax incentives

According to a joint public statement of the Ministries of Economic Affairs and Finance dated July 7, 2015 (DGBI-I&K / 15079043), starting 2016, the wage tax discount for R&D workers (known as “WBSO”) and the research and development deduction (“RDD”) for corporate income tax will be merged into one R&D tax incentive, in the form of a wage tax discount.

Introduction

Currently, the Netherlands has three R&D tax incentives available for companies engaged in innovative activities:

1. “Innovation box”

This allows companies to have their profits derived from patents and qualifying R&D activity allocated to the innovation box, and effectively tax at 5% (as opposed to the 25% ordinary corporate income tax rate).

2. WBSO

This allows companies engaged in innovative activities to obtain a deduction on their wage withholding tax liability in relation to hours spent by R&D workers. The deduction is 35% over the first €250.000 total R&D wage cost per calendar year, and 14% over R&D wage cost in excess of €250.000 per calendar year.

3. RDD (research and development deduction)

This allows companies to obtain an additional deemed deduction of 60% (i.e. on top of regular deduction or depreciation) of their expenditures for R&D (except for wage cost which is already covered by WBSO) for corporate income tax purposes.

Future plans

The plans which have been officially introduced entail that the WBSO and the RDA will be merged into one R&D tax incentive, starting from 2016. The new combined R&D tax incentive is going to be (re)named "WBSO", and the calculation-base of the current WBSO incentive is going to be expanded from only the qualifying wage costs to also R&D material expenditures. In the plans the following discount percentages table is suggested:

	Regular discount	Discount for start-ups
First €300k of R&D cost	30%	40%
R&D cost in excess of €300k	15%	15%

The great advantage of the merged R&D tax incentive is that the discount is based on wage cost only. This means that companies that do not yet generate profits can benefit from a higher discount on wage tax cost, instead of a deemed deduction for R&D expenses that only increases the tax loss (which was the result of the former RDD).

Consequences for the innovation box

The merging of the two R&D tax incentives does not change the current innovation box regime. Therefore, we assume that the new WBSO certificate (the certificate by which WBSO, and in the future also RDD, is granted) will continue to serve as an entry ticket for the innovation box.