

Key Highlight of PCD on R&D Incentive

On 19th April 2024, The Ministry of Finance (MoF) has initiated a public consultation regarding the potential introduction of Research and Development (R&D) tax incentives under the Corporate Tax Law. The aim is to foster innovation, competitiveness, and economic diversity. This consultation paper is split into the consultation questionnaire and guidance paper.

Key highlights of the consultation are as follows:

► Purpose and Aim:


The UAE Government recognizes the significance of R&D in driving innovation and aims to support businesses by potentially introducing an R&D Tax Incentive under the Corporate Tax Law. The consultation seeks feedback to design an effective incentive accessible to a wide range of businesses.

► Design Features:

The consultation seeks input on various aspects of the potential R&D tax incentive, including defining R&D, determining qualifying businesses and activities, identifying eligible expenditure, selecting incentive types, managing unutilized benefits, and establishing administrative measures.

► Consultation Process:

Stakeholders are invited to provide feedback through a consultation questionnaire and this includes a range of questions to understand more about the way in which R&D is currently and/or anticipated to be conducted in your business, what the potential R&D Tax Incentive should cover and how the potential R&D Tax Incentive should be delivered and administered



Alongside the consultation questionnaire, a separate Guidance Paper has been prepared which provides details on the internationally recognized definition of R&D provided in the Organization for Economic Co-operation and Development's ('OECD') Frascati Manual.

The Keys highlight of the Guidance paper are outlined below:

➤ R&D Definition:

R&D is characterized by systematic, creative processes aimed at advancing human, cultural, and societal knowledge. It encompasses basic research, application-oriented research, and experimental research. Key R&D characteristics are as outlined:

Novelty

Creating new knowledge or improving existing concepts.

Creativity

Involves human intervention beyond routine changes.

Uncertainty

The outcome cannot be precisely estimated.

Systematic

Conducted in a planned manner with documented processes.

Transferability & Reproducibility

Results should be transferable and reproducible by other researchers.

➤ Common R&D Activities:

Activities such as transforming research outcomes, modifying product components or processes, conducting tests, and designing tools with new technologies are considered R&D.

► **Excluded Activities:**

Certain engineering and scientific activities, as well as those related to scientific and technical information services, testing and standards unification, feasibility studies, policies, funding management, and indirect support, are excluded from R&D.

► **Identification of R&D Projects:**

Criteria for identifying R&D projects include project objectives, novelty, implementation methods, general applicability of outcomes, staff involvement, and classification of research projects and institutions.

Overall, the R&D tax incentive seeks to aid the private sector by reducing the effective cost associated with conducting research and development, with the goal of making it accessible to a broad array of businesses in the UAE. Stakeholders are urged to offer concise & transparent feedback by May 14, 2024.






FAME

ADVISORY



 +971 52 6559480
+971 4 396 4885

 hemang@fame.ae

 www.fame.ae

Follow on us:

