THE IMPACT OF TAX RELIEFS ON INNOVATION FOR ROMANIAN ENTITIES
IMPACTUL SCUTIRILOR FISCALE ASUPRA ENTITĂŢILOR ECONOMICE DIN ROMÂNIA

AURA EMANUELA DOMIL[1]; A. E. ARTENE[2]; I. BOSTAN[3]

[1]West University of Timisoara, Faculty of Economics and Business Administration, Timisoara, Romania; aura.domil@feaa.uvt.ro
[2] Tibiscus University, Faculty of Economic Sciences, Timisoara, Romania
[3]''Ştefan cel Mare'' University of Suceava, Faculty of Economics and Public Administration, Suceava, Romania

Abstract: *Innovation is an important factor in the competiveness of a company and the main driver of growth in productivity and in incresing standard of living. Fiscal policy is genarally considered the most effective environmental policy tool available to goverments. Increasing research and development activities, especially in the private sector, it is possible through tax incentives for companies witch unfold research and development activities. A tax incentive represents an important determined in innovative behavior. For designing and measuring public support to research and development activities it is often not sufficient to focus only on tax rate effects of research and development activities , tax incentives and the design of a tax incentive must be in accordance with the framing tax system in order to be effective.*

Key words: *innovation, tax reliefs, tax policy, research and development*

INTRODUCTION

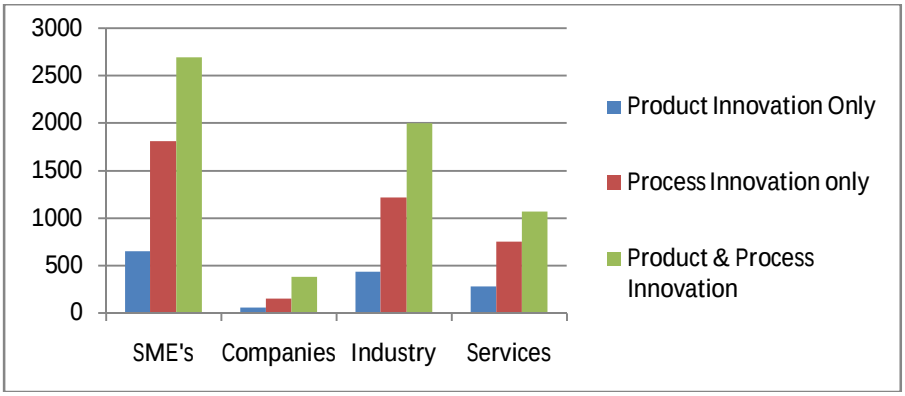
An appropriate design and use of fiscal measures has the aim to encourage research and development activities. Romania use fiscal measures only for fostering the market introduction and uptake of new technologies, products and processes. Governments as drivers to create innovation policies , tax planning, including transferring intelectual property to low tax jurisdiction, spill over positive effects in the economy.

When we talk about innovation we are referring to change that can take different forms:

- product innovation – changes in the products or services which an economic entity offers;
- process innovation – changes in the ways in which they are created and delivered;
- position innovation – changes in the context in which the product or services are introduced;
- paradigm innovation[61] – changes in the underling mental models which frame what the economic entity does.

Supporting innovation is an important objective in all countries. Governments use tax systems to help overcome barriers to innovation by reducing the cost of undertaking innovative activities.

Enterprises with technological innovation, by type of innovation in Romania[62]:



The evolution of innovative *SME's in Romania* has to be taken into account and the Guverment need to develop incentive scheme in order to promote R&D activities. Young entities which build their existence on research intensive activities and do not generate profits yet shold be encouraged. Romanian fiscal incentives do not provide effective support in

[61] J.Tidd, J.R. Bessant, K.Pavitt, *Managing Innovation: integrating technological, market and organizational change*, John Wiley & Sons Publisher, 2001, ISBN 978-0471496151
[62] Romanian Statistical Yearbook 2011

this situation, there are workable design options such as cash refunds or deductions from wage taxes.

RESULTS AND DISCUTIONS
GENERAL CONSIDERATIONS CONCERNING THE TAX INCENTIVES FOR R&D

The design options most broadly discussed in the policy-oriented literature are the types of fiscal relief (OECD 2002a, European Commission 2003, Pottelsberghe et al. 2003).

A first question concerns the form of the incentive, the three basic forms being

- a tax deferral,
- a tax allowance and
- a tax credit.

A tax deferral is a delay in the payment of taxes, typically in form of an allowance for accelerated depreciation. In principle, certain forms of tax deferral exist in the tax treatment of R&D in nearly every country. Most of them accept the full deduction of current R&D expenses, which can be regarded conceptually as accelerated depreciation, because some of the expenses are assumed to generate future income (OECD 2002a, Pottelsberghe et al. 2003). A noteworthy counter example is Estonia which does not accept any deductions but has a very low general corporate tax rate. Another a bit less frequent way is the abovementioned variety of depreciation rules for capital expenditures.

Tax allowances and tax credits are nowadays similar frequent. A tax allowance allows for the deduction of expenses in defining the taxable income. The typical form is that significantly more than the usual 100% of R&D expenses are deductible. The value of the resulting relief depends on the applicable tax rate, too. This form is used in about half of the schemes.

The other half of the schemes are based on tax credits which are applied on the base of the tax sum to be paid and reduce this by a certain amount, which varies considerably between countries but does in no case exceed 50% of the eligible R&D expenditures.

A second important choice is if all R&D expenditures are eligible (so-called volumebased schemes) or if only additional research is supported.

A rather large literature indicates that this choice is one of the most salient issues in designing fiscal incentives.

And in the measures in use the first option is favoured increasingly, with more than half of the schemes being strictly volume based and only one scheme being solely incremental.

A third relevant design issue is the flexibility in making use of the scheme. It is influenced by the option to carry back or carry forward unused credits, the tradability of the fiscal incentives or the availability of a credit guarantee.

TAX INCENTIVES FOR INNOVATION IN ROMANIA

It is undeniable that existing regulations have certain deficiencies and that they have contributed to a certain extent the emergence of the global crisis.

Many studies have focused on the resons that investmants in R&D indicating that they are due to the fact that the it can be directly linked to enhancements in the "knowledge-based economy." These studies have showed that 30 to 50 percent of today's economic growth can be directly linked to product innovation development and innovation technologies. The "knowledge-based economy" and R&D activities have a very clear impact on these new business drivers.

To streamline R&D activities companies choose their research location taking into account the level of technical expertise and transparency of regulations and ruling.

There are many more choices for placeing an R&D facility. First, through all of these operational issues, then ending up focusing on the bottom line and fi guring out where is it most cost effective. So, the operational and infrastructure issues narrow the fileld for where you can select an R&D facility, and then ending up with cost as the final issue. National Academy of Sciences did a ranking of various companies in their approach to figuring out where is the best location to put an R&D facility. So, they had stability of the economy and the government, as one of them. Market for products in the country meaning, that company wants to be where your customers are or where you think your customers will be. The company focus is on quality of the R&D personnel, intellectual property

protection, university collaboration, import and export restrictions, and then cost[63].

To streamline costs and obtain some economies the companies carries out R&D activities in specialized centres. Additional tax allowence for R&D expences are relevant to the activity of many multinational groups present in Romania.

Incentives are established by organisations outside the company, usually public administration bodies or insurers; these incentives may act at national, regional or sector level. With regard to the economic aspect of incentives, there are two major categories:

- financial incentives (positive or negative), such as insurance-related incentives ,

funding schemes, and tax-based incentives (tax reduction or specific taxes);

- non-financial incentives, including recognition schemes such as awards; aiming at positive recognition but not having substantial direct financial implications.

The main focus of this report is on external financial incentives (insurance-related incentives and public incentive schemes), and to a lesser extent on non-financial incentives.

Tax incentives for R&D activities is to reduce the taxable income for eligible taxpayers, by deducting additional 20% of the expenditure incurred by them in the current fiscal year for research and development activities, and by applying the methods of accelerated depreciation for equipment and equipment for research and development.

Tax incentives are granted for research and development activities that led to getting research results, recoverable by taxpayers, oneself, in order to increase revenues.

Eligible expenditure in determining the deduction is given additional taxable income are:

- depreciation of tangible fixed assets acquired or created by taxpayers in new condition, used in research and development;
- expenditure on wages of personnel directly engaged in research and development;

[63] M. Reilly, M. Goldbas, J. Hunter, E. McMahon, N. Palmintere, *Tax Incentives for Innovation and US Competitiveness*, the Tax Magazine, 2010

- expenditure on tangible fixed assets maintenance and repairs performed by third parties;
- depreciation of intangible fixed assets, purchared by the taxpayer, used in research and development;
- operating costs, including: expenditure on consumables, expenses on materials of small inventory, raw material costs, expenditure on experimental animals and other similar products used in research and development activities;
- Overheads expenses that can be allocated directly or proportionally of research results by using an allocation key.

Only those eligible expenses recorded in the accounts, on the basis of supporting documents, according to the applicable accounting rules.

To be eligible for tax incentives for research and development the costs shall be costs incurred by the taxpayer for the purposes of the income. Additional deduction is calculated quarterly / annually, as appropriate.

Eligible expenditure taken into account the deduction is additional to the profit taxation determination are as follows:

- depreciation of tangible assets created or acquired by the taxpayer as new and used in research and development;
- costs of staff wages directly engaged in research and development activities;
- costs of maintenance and repairs performed by third parties;
- depreciation of intangible assets, purchased by the taxpayer, used in research and development;
- operating costs, including costs of consumables, expenses related to the materials of small inventory, raw material costs, expenditure on experimental animals, and similar products used in research and development.
- Overhead costs which can be allocated directly or proportionally, of research results by using an allocation key.

In order to determine the amount that represents additional deduction in calculating taxable income, eligible expenses are added together and will be included in tax register.

Accelerated depreciation for equipment and equipment for research and development activities are carried out according to art. 24 of the Tax Code.

CONCLUSIONS

Fiscal policy is genarally considered the most effective environmental policy tool available to goverments. Where well-designed environmental taxes have been levied, these taxes have been show to be effective for inducing innovation. So, goverments need to consider how to best imprive their approch. Skilfully harnessing the tax system offers a robust and inded innovative way forward.

Fiscal policy stabilization is a necessary but not sufficient condition for sustained economic growth.

Technological innovation is an important factor in the competiveness of a company and the main driver of growth in productivity and in incresing standard of living.

Human resources and new technologies, in conjunction with the innovative capacity and to generate future benefits of investments represent the essential details of the process of economic growth, which can be mentioned in particular the principles of sustainable development in the "knowledge-based economy".

ACKNOWLEDGEMENT

This work was supported by the project "Post-Doctoral Studies in Economics:
training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.

REFERENCES

1. **J. GUINET, H. KAMATA,** *Do Tax-incentives Promote Innovation?*, The OCED Observer, No. 202, 1996; OCED 2010, *Taxation, Innovation and the Environment*, Paris;
2. **M. REILLY, M. GOLDBAS, J. HUNTER, E. MCMAHON, N. PALMINTERE,** *Tax Incentives for Innovation and US Competitiveness*, the Tax Magazine, 2010;

3. N. MANOLIU, Codul fiscal comparat 2011-2012, Ed. Confisc, Bucuresti, 2012;

4. J.TIDD, J.R. BESSANT, K.PAVITT, *Managing Innovation: integrating technological, market and organizational change,* John Wiley & Sons Publisher, 2001, ISBN 978-0471496151;

5. OMFP 2086/2010 Stimulente fiscale pentru activitati de cercetare-dezvoltare, M.Of. 573/2010;

6. Ordinul 4504/2010 pentru aprobarea Normelor privind deducerile pentru celtuielile de cercetare – dezvoltare la determinarea profitului impozabil, M.Of. 573/2010;

7. http://osha.europa.eu/en/publications/reports/economic_incentives.