



Frontiers in tax

Polish edition

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- “Innovation box”, a new measure that supplements the ecosystem of R&D tax incentives, may come into force as early as 2018
- R&D in the automotive sector
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- Higher salaries for technology engineers - changes in the application of 50% lump-sum tax deductible costs

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Introduction



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In today's world, it is difficult to imagine entrepreneurs competing on the European or global market that are not trying to further improve their products, upgrade their production processes or enhance their service provision. These efforts most often require the development of technology.

Polish entrepreneurs face a particular challenge in this area, as long after Poland's political and economic transformation, their R&D expenditure ratio is still among the lowest in Europe. If they wish to keep pace with European and global competition while addressing labour market pressures, Polish entrepreneurs have no other choice but to keep increasing their spending on technology development.

New innovation support instruments and improved existing ones constitute welcome help to the enterprise sector in that field. Note that the recently introduced R&D tax incentive has increased three-fold this year compared to 2016. Also, work is currently underway on the "Innovation Box," a new tax incentive for firms earning income from the technology they develop. Likely to be adopted into law in 2018, it would tax this kind of income at a substantially lower income tax rate (a 4 per cent rate is assumed).

The current issue of the *Frontiers in Tax* magazine provides information on this and other innovation supporting incentives for entrepreneurs. I hope that this new issue will advance new co-financing ideas you will wish to implement in your enterprises.

Wishing you a pleasant read!

Increased tax relief for R&D

Tax relief for research and development is an instrument that helps to reduce corporate development costs.



What is R&D tax relief?

Tax relief for research and development is entitles enterprises to a reduction of their tax base based on their research and development activities; as a result, a company can save PLN 190 on every PLN 1,000 it spends on R&D (or as much as PLN 285 if it has a Research and Development Centre status). Here, research and development activity is defined as creative work involving scientific research or experimental development work undertaken on a systematic basis in order to increase knowledge resources and use of that knowledge to develop new applications.

In practice, any enterprise which improves its products, technologies (including production technologies) or services, or which creates those from the inside out conceivably fulfils the R&D work related tax relief eligibility conditions. What is crucial is that the taxpayer engages in research and development work; also worth noting is the fact that the tax relief eligibility requirements do not impose any minimum level of innovation:

outcomes that are just company-scale innovations are acceptable. Research and development areas can be identified in any industry, e.g. in:

- the construction industry, among others, the development of prefabrication systems, including research into the use of new materials;
- ICT, among others, the development of specialised software related tools and techniques (image processing, presentation of geographical data, handwriting recognition);
- the food industry, among others, the development of technologies and devices for harvesting and storing agricultural products;
- the raw materials recycling industry, among others, improved waste treatment technologies (e.g. mechanical, thermal, biological);
- the financial sector, among others, the development of systems that increase the efficiency of transaction data processing;

- the medical industry, among others, research into new formulations and dosage forms of multi-component medications.

What are the advantages?

Since the beginning of 2018, the eligible cost deduction limit has been raised significantly and currently stands at 100 per cent for all companies, with the exception of enterprises with the status of Research and Development Centre (formal status which a company can obtain after meeting certain requirements); in their case, the deduction limit can reach 150 per cent. In effect, entrepreneurs may recognise up to 200 or 250 per cent of their tax deductible R&D related eligible costs. What this means in practical terms is that for every PLN 1,000 they spend on research and development, the taxpayer can deduct from their tax base an additional PLN 1,000 to PLN 1,500, which translates into a direct tax reduction of between PLN 190 and PLN 285.

A sample tax relief calculation:

Item	Value without R&D tax relief [PLN]	Value with R&D tax relief [PLN]	Value with tax relief for R&D Centres [PLN]
R&D costs	(10,000,000)	(10,000,000)	(10,000,000)
Tax base	20,000,000	20,000,000	20,000,000
Deduction of eligible R&D costs (100%)	None	(10,000,000)	(15,000,000)
Tax base after deduction of R&D tax relief	20,000,000	10,000,000	5,000,000
Tax rate	19%	19%	19%
Tax due	(3,800,000)	(1,900,000)	(950,000)
Difference in taxation / benefit:		1,900,000	2,850,000

1000 PLN



190/285 PLN

Source: KPMG own description

Which costs are eligible?

The research and development tax relief is granted toward the costs of R&D activities incurred in a given tax year (it is important to bear the cost, not the end of the project) consistent with the closed catalogue(s) of eligible costs (presented below).

Catalogue of eligible costs applicable to enterprises:

Salaries of persons engaged in R&D on the basis of an employment contract
Purchase of raw materials and consumables
Third-party services
Paid use of scientific and research equipment
Depreciation write-offs
Patents, applied designs and industrial designs (also for large enterprises)
Remuneration of natural persons on the basis of a contract of mandate or specific task contract
Write-offs on intangible assets created through development work
Purchase of R&D equipment other than fixed tangible assets

Catalogue of additional eligible costs applicable to RDCs:

Depreciation of buildings, structures and premises
Acquisition of third-party services from entities other than scientific research units

Important steps in obtaining the tax relief

To be able to take advantage of the tax relief for research and development, the taxpayer needs to prepare appropriately. In addition to correctly mapping R&D activities (the fine line between those and other works considered routine and hence not

What is crucial is that the taxpayer engages in research and development work; also worth noting is the fact that the tax relief eligibility requirements do not impose any minimum level of innovation: outcomes that are just company-scale innovations are acceptable

qualified as R&D is often hard to identify), the taxpayer is required to comply with several conditions set out by legislators.

The eligible cost deductions are made on a cumulative basis in the annual tax return with respect to the tax year in which they are incurred (which does not exclude the possibility of using tax reliefs for costs incurred in previous periods as far back as the year 2016). At the same time, the taxpayer is required to maintain separate accounting records for R&D related expenses. Expenses deducted under R&D tax relief can not be refunded to the taxpayer in any way whatsoever; such refund should be understood as originating from public funds.

Taking into account all of the above, the taxpayer is required to report eligible costs in the CIT-BR form appended to the annual tax return. Moreover, it is good practice to document and substantiate the compliance of the company's activities with the definition of R&D, and to document incurred R&D expenses in the form of an annual report on R&D activities, a document prepared for tax relief purposes.

R&D tax relief as a gateway to further benefits

Work is currently underway on a new tax relief instrument, referred to as the Innovation Box. This instrument will introduce preferential taxation for income obtained primarily through research and development works; one of the conditions of its use, now under consideration, is the previous use of R&D tax relief.



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“Innovation box”, a new measure that supplements the ecosystem of R&D tax incentives, may come into force as early as 2018

Information from the Ministry of Entrepreneurship and Technology reveals that efforts on a new tax incentive for companies generating revenue on the commercialisation of R&D are still underway. The government will announce the first proposal in the first quarter of 2018.

This new incentive, known globally as the patent box, could come into force as early as 2018. This will become a long-anticipated addition to the Polish scheme that reinforces the innovative edge of enterprises. Current measures include an R&D tax credit which enables entrepreneurs to apply for support exclusively during the development stage of new solutions. The main objective of this tax incentive is to mitigate the impact of risks related to uncertainty which often prevents companies from launching R&D projects. Very often businesses encounter roadblocks that hamper implementation of ready-to-use solutions and their commercialisation. The new measure to be introduced by the government, known as the “Innovation box”, will thus become a perfect addition to the R&D tax credit as it provides incentives for commercialisation of developed processes, products and services.

What is the “Innovation box”?

The suggested name for the Polish incentive is “Innovation Box.” Such incentives introduce preferential tax rates for revenue generated as a result of research and development activities or based on solutions protected by intellectual property rights. Revenue generated on patented or newly developed technology is subject to a lower tax rate, what directly reduces the tax burden and boosts savings for the taxpayer.

Similar solutions were implemented many years ago in numerous countries around the world, including the United Kingdom, Ireland, the Netherlands, Belgium, China, France, Hungary, Spain, and Switzerland.

Terms and conditions for introduction of the “Innovation box” in Poland

Current plans include introduction of a preferential rate for the results of solutions submitted for patent protection as well as solutions that constitute business secrets. The preferential corporate income tax rate will stand at 4%. If new tax incentives are actually introduced pursuant to the terms and conditions announced by the Ministry, they will become one of the most appealing measures of this kind worldwide. Compared to other countries, the preferential rate proposed by the Polish government ranks among the lowest. According to the plan, the tax credit will not be limited to solutions protected by intellectual property rights. In certain countries it significantly reduces the scope of its application since numerous solutions generated as a result of R&D efforts are not patented by businesses. It should be also stressed that the formal protection of intellectual property rights, including patents or industrial design, is not commonly applied in selected sectors as a result of the specific profile of product development, specific regulations as well as the form of the finished product. It is thus fair to say that the draft proposed by the Ministry introduces solutions which are very open and accessible to many sectors and does not artificially reduce the availability of the incentive to selected industries.

The final terms and conditions for “Innovation box” have not been confirmed, but given the proposed preferential rate of 4%, the practical application of the incentive may be

illustrated by the following example. If total costs related to development and implementation of a new solution totalled PLN 10 million, including PLN 5 million in R&D costs, the preferential rate will be applicable to 50% of revenue. The company generates PLN 3 million worth of annual revenue (profit before tax) on sales of the new solution, which means that the preferential rate will apply to PLN 1.5 million of annual revenue. Over the span of three years, a company which applies the 19% corporate tax rate will save PLN 675,000.

It is possible that “Innovation box” will be closely tied to the R&D tax credit. In order to benefit from the incentive in relation to solutions designed as a result of research and development projects, it may also be essential to identify such costs to claim the already introduced R&D tax credit. This means that entrepreneurs should adequately allocate R&D expenditure with the tax credit in mind to be ready to benefit from this measure when new “Innovation box” regulations are introduced. It should be noted that the current statutory definition of research and development is broad and not limited exclusively to specialist companies. Businesses developing their original products or production processes should also consider whether their activities meet all R&D requirements.

Obligations of entrepreneurs

Similarly to the R&D tax credit, in order to benefit from the incentive, properly account for it and record incurred expenses, entrepreneurs will most likely have to introduce relevant principles to their accounting and tax records,

Current plans include introduction of a preferential rate for the results of solutions submitted for patent protection as well as solutions that constitute business secrets.



separated in order to make them eligible for the tax credit. Most probably, the preferential corporate income tax rate will be applied to a portion of revenue, pro rata to the cost of developing solutions that actually account for research and development. Experience with the R&D tax credit demonstrates that an adequate allocation of costs is often very challenging for companies due to unsuitable accounting systems and a lack of required knowledge regarding the nature of research and development activities. The need to keep proper R&D records is also demonstrated by common example of tax office interpretations that are unfavourable for businesses. Experience in this area proves that records should support clear verification if allocated costs are actually relevant to R&D. Meanwhile, businesses often struggle with correct identification of this expenditure as not all costs related to the scope of R&D assignments performed by employees are eligible for the tax credit. We should also keep in mind that a complete inventory of R&D projects enables entrepreneurs to best defend their interpretation of regulations, which may be particularly important if a tax office issues an interpretation that is unfavourable for the taxpayer.



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R&D in the automotive sector

In the world rank of 2500 enterprises with the highest expenditure on R&D in 2016, the automotive sector was clearly in the lead - Volkswagen once again came 1st (EUR 13.67b), GM 11th (EUR 7.68b), Daimler 12th (EUR 7.53b), Toyota 13th (EUR 7.50b), Ford 15th (EUR 6.92), and Robert Bosch 20th (EUR 5.58b). The automotive industry is also the pillar of the European economy and a leader driving R&D and innovation.



In terms of R&D expenditure, the automotive industry ranks first in Europe, well ahead of such sectors like pharmaceuticals and biotechnology, the engineering goods industry, or aviation and defence.

Leading R&D investors by countries (Europe)

EU rank	Company	Country	Industry	R&D 2016/17 (€million)
1	VOLKSWAGEN	Germany	Automobiles & Parts	13672,0
2	DAIMLER	Germany	Automobiles & Parts	7536,0
3	ROBERT BOSCH	Germany	Automobiles & Parts	5587,0
4	ASTRAZENECA	UK	Pharmaceuticals & Biotechnology	5358,1
5	BMW	Germany	Automobiles & Parts	5164,0
6	SANOFI	France	Pharmaceuticals & Biotechnology	5156,0
7	SIEMENS	Germany	Electronic & Electrical Equipment	5056,0
8	NOKIA	Finland	Technology Hardware & Equipment	4904,0
9	BAYER	Germany	Pharmaceuticals & Biotechnology	4774,0
10	FIAT CHRYSLER AUTOMOBILES	Netherlands	Automobiles & Parts	4219,0

Source: The 2017 EU Industrial R&D Investment Scoreboard

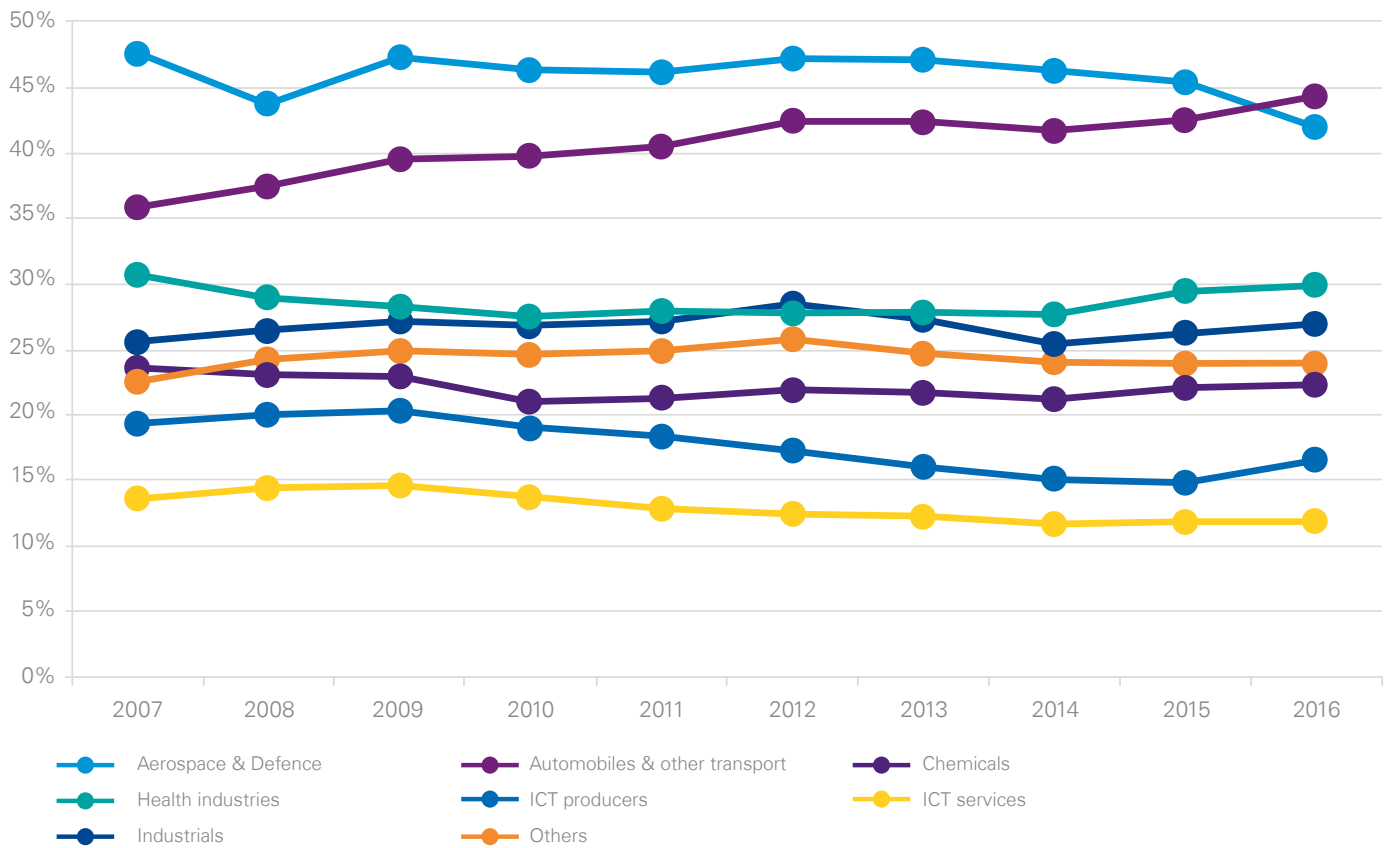
Top 10 companies (world)

World rank	Company	Country	Industry	R&D 2016/17 (€million)
1	VOLKSWAGEN	Germany	Automobiles & Parts	13672,0
2	ALPHABET	US	Software & Computer Services	12864,1
3	MICROSOFT	US	Software & Computer Services	12367,9
4	SAMSUNG ELECTRONICS	South Korea	Electronic & Electrical Equipment	12154,6
5	INTEL	US	Technology Hardware & Equipment	12086,1
6	HUAWEI	China	Technology Hardware & Equipment	10362,7
7	APPLE	US	Technology Hardware & Equipment	9529,5
8	ROCHE	Switzerland	Pharmaceuticals & Biotechnology	9241,6
9	JOHNSON & JOHNSON	US	Pharmaceuticals & Biotechnology	8628,2
10	NOVARTIS	Switzerland	Pharmaceuticals & Biotechnology	8539,0

Source: The 2017 EU Industrial R&D Investment Scoreboard

The share of companies from the European Union in global R&D in the automotive sector was up from 36% to 44%. By contrast, US companies boosted their R&D expenditure in the ICT sector (from 66% to 75%), but their share in global R&D expenditure of the automotive sector went down (from 25% to 19%).

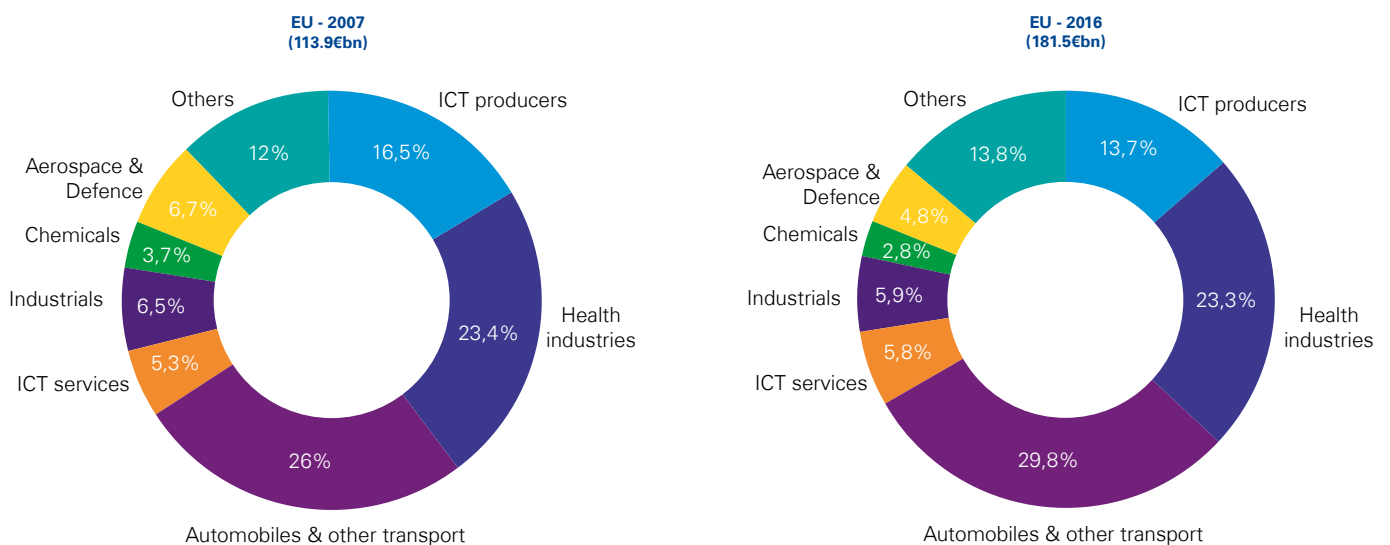
Change in R&D expenditure by sectors (2007-2016)



Calculated for a sample of 402 companies for which data are available for the entire period 2007-2016.

Source: The 2017 EU Industrial R&D Investment Scoreboard

R&D specialisation for EU and world companies in 2007 and 2016



Shares computed for 456 EU and 1836 world companies for which R&D data are available for the entire 2007-2016 period.

Source: The 2017 EU Industrial R&D Investment Scoreboard

Electric vehicles

Findings of 2017 Scoreboard reveal that the automotive sector is the world's third largest industry in terms of R&D and the largest one in the European Union and Japan. Currently, electric mobility is rising in prominence. British and French governments have announced that all cars marketed after 2040 must be fitted with an electric drive. Meanwhile, Volvo has communicated that all cars manufactured after 2019 will be powered with an electric or hybrid engine. The cost of components, including electric batteries, is constantly declining, what makes prices of electric cars more affordable - the price of Tesla 3 is expected to start from USD 35,000.

Current producers of ICE vehicles are also announcing their plans to launch production of electric vehicles - this group features **Volkswagen** (50 electric vehicles and 30 hybrids by 2025), **Daimler** (all-electric vehicles only by 2022), **Renault** (50% electric or hybrid vehicles by 2022), and **Honda** (two-thirds of all new cars sold in Europe to be offered with an optional hybrid drive by 2025). Meanwhile, new players are also coming to the game - **Dyson** plans to invest GBP 2.5 billion in production of an electric vehicle by 2010. In addition, **Shell** plans to install fast chargers across its gas stations, initially in the UK and the Netherlands.

Despite technological delays, the European Union should also produce batteries, including traction batteries for electric vehicles, reveal findings of

a diagnosis presented by the European Battery Alliance in Brussels.

To-date, the competitive edge of the European automotive sector was mainly underpinned by ICE-oriented innovations, but it seems that this approach must be radically changed to maintain its competitive market advantage.

ICE powered vehicles consist of more than 20,000 parts, while EVs feature only approx. 7,000 components, what has enormous impact on changes in operations of the motor industry and hence sub-suppliers who are being forced to switch to production that contributes to electrification of vehicles. It is production of parts and accessories that remains the backbone of the Polish motor industry with an employment level estimated at approx. 147,000 people.

These figures reflect strong ties of the automotive sector with R&D efforts, what poses an enormous challenge for Polish companies from the sector, but also opens up prospects for development and marking their presence on world markets, especially that the sector is experiencing visible and constant growth. In longer perspective, this growth will not be possible without boosting the R&D potential of companies as well as development and implementation of innovative products, services or processes.

The fundamental issue that hampers improvement of the competitive edge of the Polish economy in the

automotive industry is the limited number of competitive and innovative solutions created by Polish research centres and companies.

There are several reasons behind this issue:

- National players from the automotive industry demonstrate little interest in implementing and funding innovation-oriented R&D projects. This is mainly related to the weak financial situation of SMEs from the motor sector compared to European and world companies and the high cost of implementation of new technologies and products. As a result of their capital links, large companies from the automotive industry in Poland are usually rolling out R&D projects outside our country. The situation is additionally aggravated by not very effective cooperation of automotive companies and Polish R&D centres benefiting from modern research infrastructure and highly qualified researchers.
- Polish entrepreneurs often opt for ready-to-use foreign innovative products which are freely available on the market (e.g. licensing) as in-house R&D efforts fail to guarantee innovative solutions and hence involve high financial risk.
- Low development dynamics of Polish research centres with the automotive profile is the after-effect of insufficient resources to fund projects (including procurement and development of modern



Currently, electric mobility is rising in prominence. British and French governments have announced that all cars marketed after 2040 must be fitted with an electric drive.

research infrastructure) dedicated to development of innovative R&D solutions as well as limited cooperation of research centres with businesses and other scientific centres in Poland and beyond. Consequently, a limited number of research projects focused on innovative solutions is being implemented in Poland.

Automotive organisations also project that profit growth in the near term may decline as R&D expenditure essential to develop new technologies for electric vehicles and autonomous cars must be increased.

The second edition of the InnoMoto competition comes as a response to these challenges. In May, companies from the automotive sector will be once more able to apply for grants. The Programme strives to improve the competitive edge of the Polish automotive sector on the world markets by strengthening its capability to generate innovative solutions.

Detailed programme objectives include:

- Boosting the number of competitive and innovative solutions dedicated to the automotive sector developed by Polish research centres and companies.
- Increasing the interest of national players from the automotive sector in implementing and funding innovation-oriented R&D projects.
- Increased application of Polish innovative solutions by industrial entities.

Aid provided under InnoMoto programme will be allocated to implementation of research and development projects pursued by the

automotive industry. Companies and consortia consisting of companies from outside Mazowieckie voivodship are eligible for grants whose maximum value may account for up to 80% of eligible project costs.

The second flight of the competition opens on 11 May 2018 and will last until 10 July 2018. The National Centre for Research and Development will allocate PLN 300 million to co-funding of innovative projects. The exact range of topics and areas eligible for aid as well as other information about the call will be announced by the National Centre for Research and Development on 12 March 2018.

To apply for the grant, applicants must prepare and submit within identified timeframes the application for project financing which describes the envisioned project and R&D efforts. Detailed terms and conditions for filling in and submitting applications are specified by: 1) grant application instructions, and 2) instructions for applicants regarding the submission of grant applications via ICT system. Sections of the application, indicated in the instructions, are to be completed in English.

The application is subject to an assessment by a committee made up of external experts and employees of the National Centre for Research and Development. Project assessment includes formal and substantive evaluation. The substantive evaluation is performed by independent external experts, including foreign ones, in line with the catalogue of substantive criteria, during an English language panel.

85 projects were submitted for substantive evaluation in the first call

for proposals in 2016, whereas grants totalling PLN 253.34 million were allocated to 50 projects.

In line with its guidelines, the InnoMoto Programme will contribute to improvement of the competitive and innovative advantage of the Polish economy in terms of the sector's innovative products and services. This will be achieved by development and preparations for implementation of a number of innovative products and services as well as modern organisational solutions that may be applied in the automotive industry.

As a result of numerous links between the automotive industry with other sectors, including financial and business services related to sales and maintenance of cars, road transport, fuel production and sales and road infrastructure, it is expected that the competitive and innovative edge of other industries will be also improved.



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Grants for innovation

It is now past the halfway point of the EU Financial Perspective for 2014-2020. By the end of January 2018, grant agreements for which the total contribution from the European Funds reached nearly PLN 174 billion were signed. This represents about half of the total fund allocation for Poland under the present Financial Perspective.



The grant offer for 2018 abounds in competitions aimed at supporting innovative undertakings as well as projects involving the development of new products, technologies or services.

Funds will be allocated for research and development work involving the creation of new or improved solutions, as well as for innovation activities, which entail the implementation of such solutions (at this stage, the support will be accessible to small and medium-sized enterprises only).

It is assumed that calls for proposals for projects undertaken in the economic sectors for which trade organisations reported the need for support for sector-specific research projects will continue. Thus, in 2018 co-financing from European Funds will be available to entrepreneurs representing the following sectors:

- the mineral and wood waste recycling sector,
- the pharmaceutical sector,
- the automotive sector, and
- the shipbuilding sector.

The applications submitted as part of those calls for proposals will need to comply with the predefined thematic scope and the eligible cost thresholds applicable to a given competition.

In addition to sector-specific schemes, open competitions accessible to all economic sectors will be launched, including the particularly popular “Fast Track” call, where applications for grants upwards of PLN 1 million (applicable to projects implemented by SMEs) or PLN 5 million (applicable to projects undertaken by large firms) are accepted. There are also plans for a competition addressed to the SMEs holding the Seal of Excellence certificate awarded as an endorsement of the high quality of application evaluated within the framework of the Horizon 2020 programme, which did not receive support under the Framework Programme due to insufficient allocation of funds.

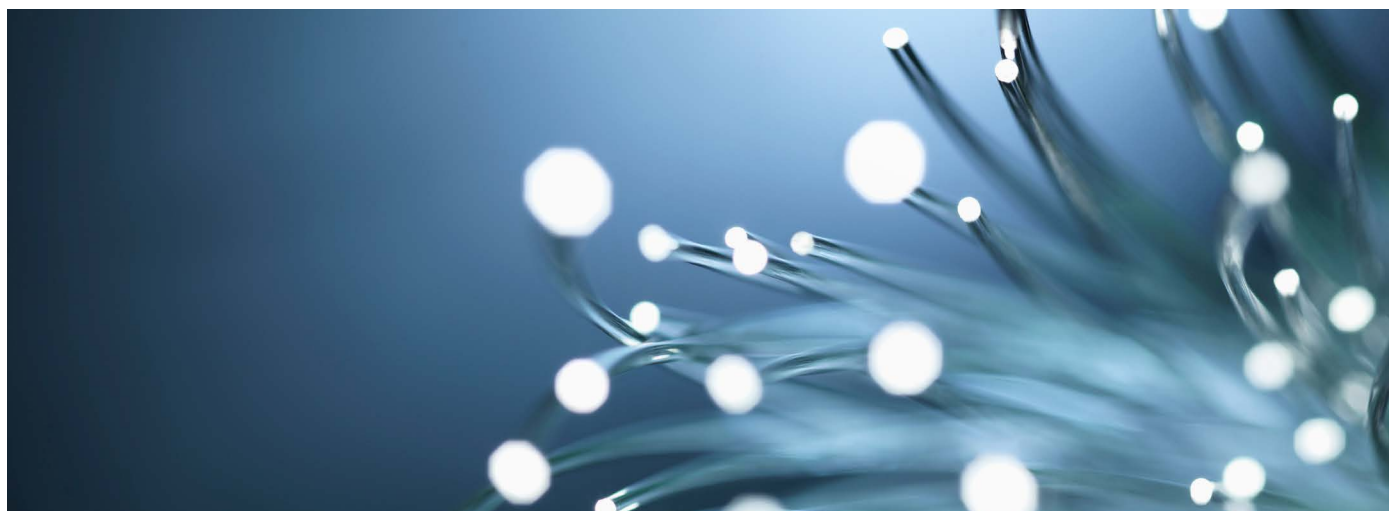
For companies undertaking projects in consortia with participation of scientific units, an open competition was prepared under sub-measure 4.1.4 “Application projects”. The minimum value of eligible project costs is lower than in other competitions and equals PLN 2 million. The maximum amount of costs may not exceed PLN 10 million.

In addition to support available for research and development projects, applicants in 2018 will have access to grants for investment projects involving the establishment or extension of R&D infrastructure, which can cover the purchase of fixed assets, construction works and materials, intangible assets

as well as materials used for research and third-party research services.

Small and medium-sized companies will also be able to apply for co-financing of investment projects aimed at starting-up production, provided that it involves innovative products or technologies. In 2018, competitions will be held under the “Research to market” and “Technology innovation credit” sub-measures. The first provides grant support for projects involving the implementation of R&D results, either performed or commissioned by the entrepreneur. Under the latter competition, the entrepreneur stands to secure a grant toward repayment of up to PLN 6 million of the loan principal granted by a commercial bank for the implementation of a technological innovation.

The support instruments discussed here provide companies with a significant incentive toward undertaking research and development as well as innovation activities, and facilitate the process in which entities operating in Poland can build significant competitive advantages.



The summary below presents the list of calls for proposals to be launched this year:

Measure/Sub-measure	Call for proposals dates	Budget	Supported projects by type
1.1.1 – Fast Track	1 March – 30 May – SMEs 1 March – 29 June – Large firms 3 April – 28 December – SMEs with the Seal of Excellence 16 August – 14 December – SMEs 3 September – 30 November – Large firms	PLN 700 million PLN 700 million PLN 50 million PLN 700 million PLN 700 million	R&D projects
1.2 – Innovative Recycling	24 September – 20 November	PLN 50 million	R&D projects in the mineral and wood waste recycling sector
1.2 – InnoNeuroPharm	03 August – 3 October	PLN 230 million	R&D projects in the pharmaceutical sector
1.2 – Innomoto	11 May – 10 July	PLN 300 million	R&D projects in the automotive sector
1.2 – InnoShip	30 April – 29 June	PLN 120 million	R&D projects in the shipbuilding sector
2.1 – Support for investments in R&D infrastructure of enterprises	28 May – 6 July	To be confirmed	Establishment or extension of research and development centres
3.2.1 – Research to market	20 March – 5 December 20 March – 5 December – Competition dedicated to medium-sized towns	PLN 750 million PLN 500 million	Implementation of research results leading to launching manufacture of new products or services
3.2.2 – Technology innovation credit	15 February – 24 May	PLN 550 million	Implementation of technological innovation
4.1.4 – Application projects	16 May – 16 July	PLN 200 million	R&D projects carried out by scientific and industrial consortia

Source: KPMG own description



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The applications submitted as part of those calls for proposals will need to comply with the predefined thematic scope and the eligible cost thresholds applicable to a given competition.





SMEs can do more

In 2018, Polish enterprises will be able to draw on many sources of operational support in the form of project co-financing. Particular priority and attention will be given to support smaller SME sector companies, which stand to benefit from support addressed to many aspects of their operations, such as research and development work and its application, or expansion into foreign markets and brand promotion. These SME dedicated instruments have been engineered to enable the smaller enterprises to significantly strengthen their market position and thereby support their further development.

Grants for R&D work

As early as March 2018, the National Centre for Research and Development will announce a new call for proposals under Sub-measure 1.1.1. Industrial research and development works conducted by enterprises, within OP Smart Growth, for co-financing of research and development projects. Grants to SMEs can range from between 35 and 80 per cent of R&D expenditures. This support will be provided for projects that constitute industrial research or experimental development work. Moreover, SMEs can apply for co-financing of advisory services related to pre-implementation work (support level of 50 per cent), including pre-implementation work provided as part of de minimis aid (support level of 90 per cent). In 2018, no competitions for projects implemented in the Mazowieckie Voivodship are anticipated under the Fast Track.

As part of the Fast Track for SMEs, two calls for proposals are planned in 2018: from 1 March to 30 May 2018, and from 16 August to 14 December 2018. The minimum value of eligible costs per project has been set at PLN 1 million. In addition, Seal of Excellence certificate holders among companies in the SME sector may submit their applications for co-financing between 3 April and 28 December 2018.

Support for the implementation of major R&D projects deemed important for the development of respective industries or economic sectors will also be available under measure 1.2 Sectoral R&D programmes within OP Smart Growth.

Application of R&D

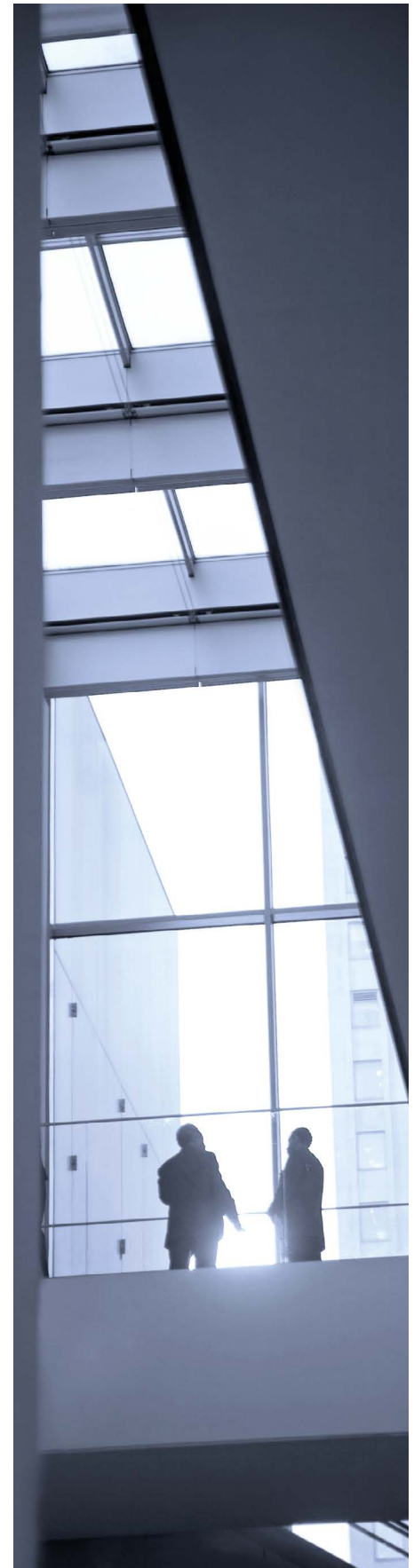
SMEs may also receive co-financing related to the implementation of research and development works as well as to the technological innovations resulting from research and development. Support will be provided for projects that involve the introduction of new or significantly improved products (goods or services)

on the market. SME sector entities will have the opportunity to apply for co-financing under:

- Sub-measure 3.2.1. Research for the market, within OP Smart Growth (call for proposals – 20 March to 5 December 2018)
- Sub-measure 3.2.2. Technology innovation credit, within OP Smart Growth (call for proposals – 15 February to 24 May 2018)

The “Research for the market” competition pertains to co-financing for project-related capital expenditures, advisory services and experimental development works. The minimum value of eligible costs per project is PLN 5 million in the case of micro and small-sized enterprises and PLN 10 million in the case of medium-sized enterprises. One important change benefitting applicants, which distinguishes this call for proposals from previous ones, is the possibility to obtain co-financing for the implementation of R&D work commissioned from an external entity. The maximum co-financing amount per project is PLN 20 million, including PLN 450,000 for development works and PLN 500,000 for advisory services.

Within the “Technology innovation credit” envelope, co-financing can be used toward partial repayment of a loan for investment in technology. The technologies implemented as part of an eligible project may include industrial property rights, development work results, industrial research results and unpatented technical knowledge, which enable the production of goods, processes or services that are either new or significantly improved compared to those previously manufactured on the territory of the Republic of Poland. The maximum co-financing amount per project is PLN 6 million.



Support for the implementation of major R&D projects deemed important for the development of respective industries or economic sectors will also be available under measure 1.2 Sectoral R&D programmes within OP Smart Growth.

Other support options

Micro, small and medium-sized enterprises operating their businesses on the territory of Eastern Poland, i.e. in the Warmińsko-Mazurskie, Podlaskie, Świętokrzyskie, Lubelskie and Podkarpackie Voivodships, as confirmed by an inscription in the relevant register no later than 12 months before the date of submission of a co-financing application, can also obtain support to expand their operations into foreign markets. The Polish Agency for Enterprise Development announced a competition

under measure 1.2 Internationalisation for SMEs, within OP Development of Eastern Poland, which was divided into two rounds of recruitment, i.e. the first call for proposals running from 27 February to 29 March 2018 and the second from 30 July to 4 September 2018. The support grants will go to comprehensive, individual and customer-tailored projects involving the development and preparation to launch new business models related to the internationalisation of the applicant's activities. The maximum level of co-financing granted under the minimis aid is 85 per cent of the project value and up to PLN 800,000.

Under Sub-measure 3.3.3 within OP Smart Growth, SME sector entities may also obtain support for the promotion of brands (for both goods and services) deemed to have the potential to gain recognition on international markets. The call for proposals will be open from 4 April to 8 May 2018. Enterprises may apply for grants of up to PLN 850,000 to participate in trade fairs, exhibitions, business missions or foreign conferences, as well as to cover the costs of advisory services related to the introduction of the company on foreign markets.

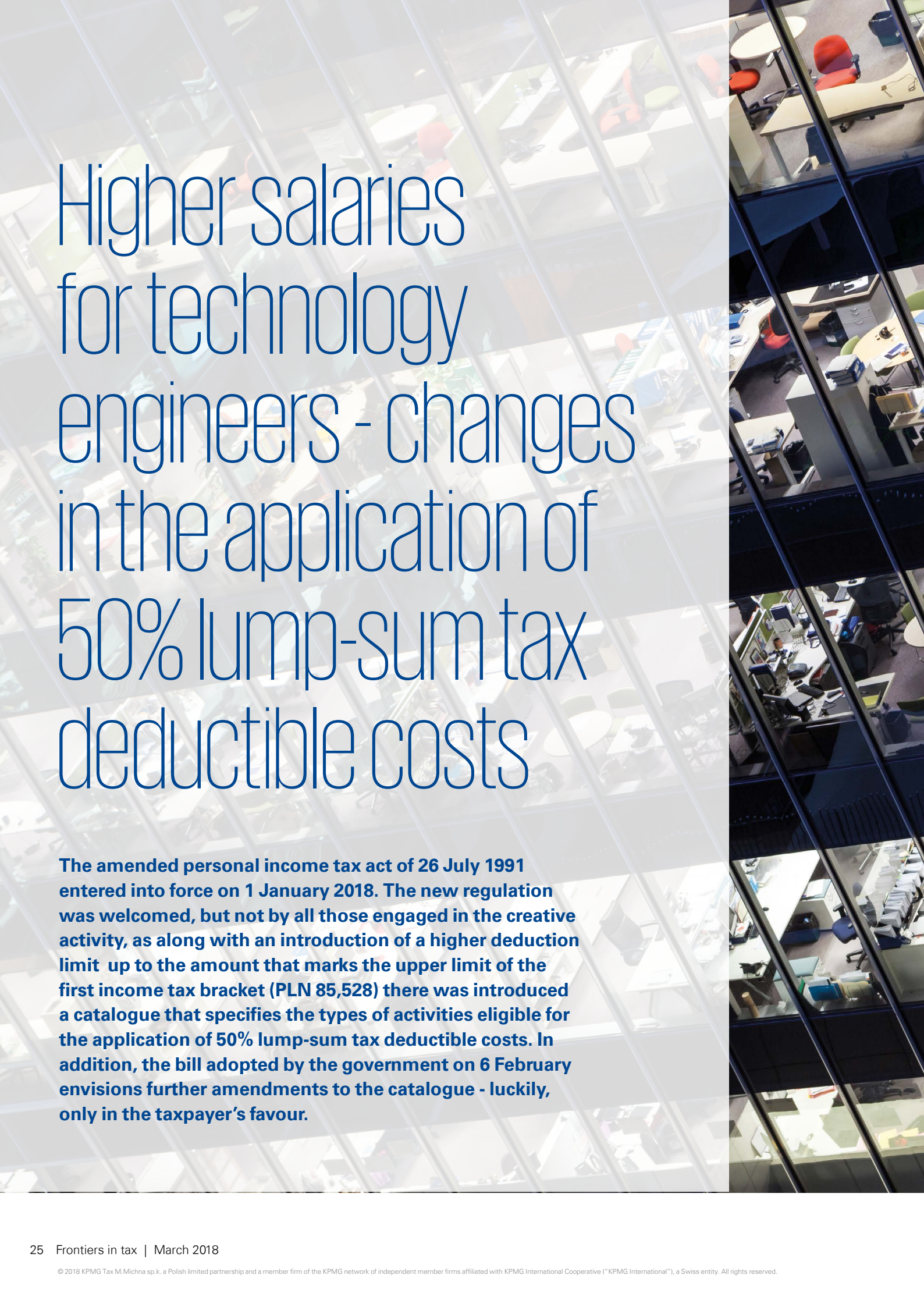
Co-financing will also be available to pay for services commissioned from scientific research entities that contribute to product development (of goods and services); this will take the form of an innovation voucher under Sub-measure 2.3.2. within OP Smart Growth. Regional Operational Programmes also organise special competitions dedicated to SMEs, which are also certainly worthy of attention.



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Higher salaries for technology engineers - changes in the application of 50% lump-sum tax deductible costs

The amended personal income tax act of 26 July 1991 entered into force on 1 January 2018. The new regulation was welcomed, but not by all those engaged in the creative activity, as along with an introduction of a higher deduction limit up to the amount that marks the upper limit of the first income tax bracket (PLN 85,528) there was introduced a catalogue that specifies the types of activities eligible for the application of 50% lump-sum tax deductible costs. In addition, the bill adopted by the government on 6 February envisions further amendments to the catalogue - luckily, only in the taxpayer's favour.





In line with Art. 22 section 9 point 3 of the personal income tax act, income from the use of economic rights by authors and related rights by artistic performers in respect of the created works within the meaning of separate regulations, likewise the disposal of such rights allow deduction of 50% lump-sum tax deductible costs off the revenue gained. Save for —authors within the traditional meaning of the word, this solution often benefited employees who created works as part of their professional obligations resulting from the employment relationship. Reports, presentations or project documentation in a wider sense were frequently submitted as works.

Until recently, it was sufficient for the outcome of creative efforts to meet the conditions required to recognise it as the work in line with provisions of

Art. 1 section 1 the act of 4 February 1994 on copyright and related rights. Thus, if the performance of professional obligations led to results of individual nature, being examples of creative activity of a human, established (externalised) and – for the purpose of a tax audit conducted by the authorities – fixed in any form, following the assignment of author's economic rights to the employer, the employee-author was eligible for 50% lump-sum tax deductible costs off his or her fee. This enabled the employer to pay a higher net salary with the gross salary unchanged.

On 1 January 2018, the hitherto applied solution was significantly limited following the introduction of Art. 22 section 9b of the natural persons income tax act, which enabled application of higher costs in the

amount of 50%, but exclusively with reference to revenue generated through the following types of activity:

1. creative activities in the field of architecture, interior decoration, landscape architecture, town-planning, fine writing, fine arts, music, photography, audio-visual works, computer software, choreography, string instrument construction, folk art and journalism;
2. research and development, scientific and educational activities;
3. creative activities in the field of acting and stage performance, theatrical and stage direction, dance and circus arts as well as in the fields of conducting, singing, instrumentation, costume design and stage design;

A number of concerns were also raised by the application of lump-sum tax deductible costs to revenue from literature that was limited exclusively to fine writing.

4. in the field of audio-visual production of directors, screenwriters, directors of photography and audio engineers, film editors and stunt performers;

5. publicism.

Introduction of amendments met with a mixed response. Musicians, filmmakers, journalists and architects were happy to see the deduction limit applicable during the past five years double, while translators and interpreters, graphic artists, authors of how-to books or motivational speakers and trainers are no longer entitled to 50% tax deductible costs. Meanwhile, the IT sector is uncertain about the scope of the term "creative activities in the field of computer software." Many media commentators generally agree that the new regulations may be safely applied exclusively by developers, while in other cases, caution in the application of the new provisions is recommended. A number of concerns were also

raised by the application of lump-sum tax deductible costs to revenue from literature that was limited exclusively to fine writing.

Notably, numerous shortcomings in the new regulations have been identified. During a session held on 6 February 2018, legislators adopted draft amendments that will expand the catalogue of activities eligible for 50% lump-sum tax deductible costs on creative works in the field of construction engineering, literature (a wider scope – which now covers only fiction), computer games (an important addition to current regulations on software), audio and audio-visual productions and translations. These amendments, since they benefit the taxpayer, may come into force retroactively as at 1 January 2018.



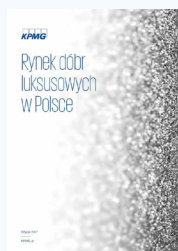
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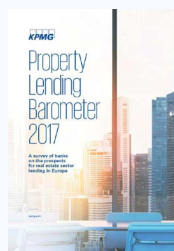
KPMG Publications

The KPMG analyses and reports are an output of our expertise and experience. The publications take up issues important to enterprises operating in Poland and globally.



The Luxury Goods Market in Poland. 2017 edition

This report is the eighth edition of KPMG's publication dedicated to the luxury goods market in Poland. The main highlight of this year's edition of the report is the portrait of the wealthy Pole and the analysis of individual segments of the luxury goods market supplemented with findings of a consumer survey and statements of industry experts. For the purpose of this report, a luxury good is defined each and every good sold under a brand which is generally considered in Poland to be a premium or luxury brand, or a brand which acquires such features due to its specific characteristics (uniqueness, high price, etc.). The report presents findings from a survey conducted on a sample of 97 respondents from July until September 2017 using the Computer Assisted Web Interview (CAWI) method.



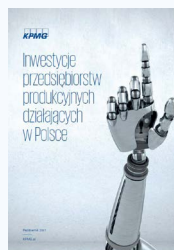
Property Lending Barometer 2017

The report is based on answers provided by more than 90 financial institutions operating in the real estate sector in 17 countries in Europe. During in-depth interviews representatives of leading financial institutions presented their views on key issues related to property lending. Economies covered by the survey were split into the following categories: dominant (Germany, United Kingdom, Spain), stable (Austria, Czech Republic, the Netherlands, Poland, Slovakia, Sweden) and other - less stable (Bulgaria, Croatia, Cyprus, Hungary, Ireland, Romania, Serbia and Turkey). The survey was conducted from May until July 2017.



Automotive Executive Barometer

Automotive Barometer is a questionnaire survey conducted by the Polish Automotive Industry Association and KPMG in Poland in November 2017 to get an insight into opinions of management members about the current and the future situation of the automotive industry in Poland. The survey was addressed to managers from companies engaged in production and distribution of vehicles, trailers and semi-trailers, body conversions or sub-assemblies, parts and accessories. The online survey was conducted on a sample of 53 respondents.



Investment of production companies operating in Poland

The report presents investment plans of manufacturing companies operating in Poland. The publication was based on analyses of CSO data, a questionnaire survey conducted on a sample of 252 industrial processing companies and individual in-depth interviews. Respondents included board members and directors accountable for development of the company and/or investments. The survey was driven by the CATI method (Computer Assisted Telephone Interview) and was conducted from April until June 2017.



The Automotive Industry. Q4/2017 edition

The report is a part of a series of regular publications which strive to highlight current trends in the automotive industry in Poland, interpreted as the automotive market, auto manufacturing and financial services. The analysis is based on the latest available registration, statistical and market data. The publication is a joint endeavour of the Polish Automotive Industry Association and KPMG in Poland.



Private Equity. Remuneration of portfolio company board members

The report was based on a survey conducted by KPMG in Poland at the turn of April and May 2017 on a sample of 15 private equity funds investing in Poland (the majority of private equity funds actively operating in Poland). Authors of the report wanted to capture the trend illustrating the evolution in the approach to remuneration of board members from fund portfolio companies after their acquisition as well as to identify management assessment criteria, terms and conditions of stock options and changes in the board structure after the deal closure.

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