

# R&D Tax Incentives: France, 2021

## Design of R&D tax relief provisions

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).

Table 1. Main design features of R&D tax incentives in France, 2021

	Crédit d'Impôt Recherche (CIR)	Le régime de la jeune entreprise innovante (J.E.I.) ou universitaire (J.E.U.)
<b>Tax incentive*</b>	R&D tax credit	SSC exemption
<b>Type of instrument</b>	Volume based	Volume based
<b>Eligible expenditures<sup>†</sup></b>	Current, depreciation	Labour
<b>Headline rates (%)</b>	30** (5 above EUR 100 million)	100 (only JEI/JEU)
<b>Refund and carry-over (years)</b>	Immediate (SMEs); after 3 years if any remaining tax credit (large firms)	Redeemable against payroll and related taxes. No carry-over.
<b>Thresholds</b>	EUR 100 million (R&D expenditure***)	-
<b>Ceilings</b>	R&D tax relief	- Employee level: 4.5 times the minimum salary - Company level: 5 times the annual social security ceiling
	Subcontracted R&D	- EUR 10 million (EUR 12 if PRO)**** - EUR 2 million if related parties

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; \*\*\* Operating expenses are fixed at a flat rate of 43% of staff costs (50% before 1 January 2020) for researchers and technicians \*\*\*\* 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.

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

### Key features:

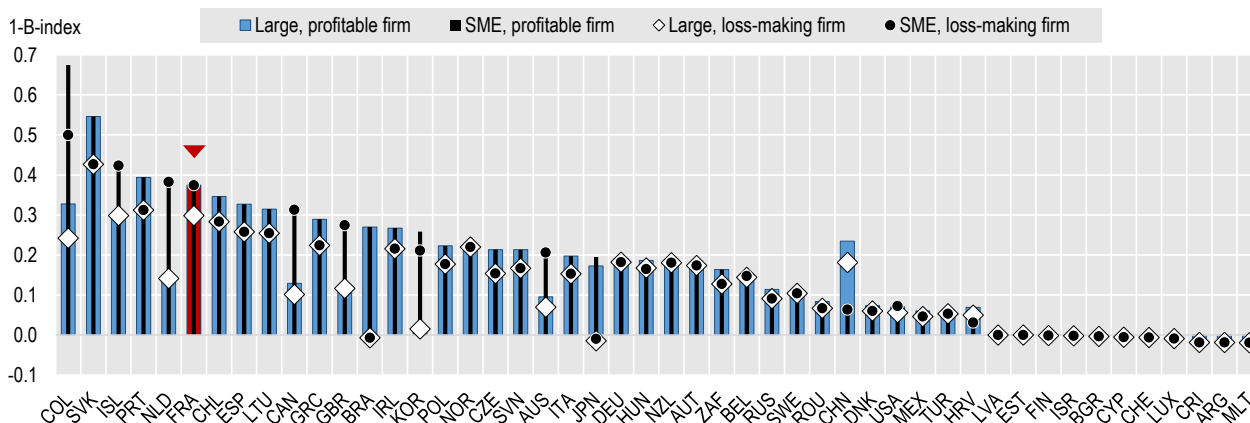
- The headline rate of the R&D tax credit is 30%, falling to 5% for R&D expenditure above the threshold of EUR 100 million.
- Unused tax credits are refunded in the case of SMEs; a three-year carry-forward is available to large firms. Any outstanding credits are refundable after that period.
- Different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

## Generosity of R&D tax support in 2021

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 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in France is estimated at 0.37 (0.37), significantly above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is equal to 0.37 (0.30) in the profit (loss)-making scenario, well above the OECD median of 0.17 (0.15). These estimates focus on the R&D tax credit (CIR) and accelerated depreciation provision.

Figure 1. Implied tax subsidy rates on R&D expenditures: France, 2021

1-B-Index, by firm size and profit scenario



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

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

## Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2021, **France** undertook **three changes** in its R&D tax relief provision.

- **France** continued its program of expedited or accelerated refunds for the R&D tax credit, introduced in 2020 in response to the **COVID-19 crisis**, into 2021.
- With the Finance Law for 2021, **France** repealed the possibility to file administrative ruling applications regarding the R&D tax credit to agencies in charge of supporting innovation. As of 1 January 2021, companies can apply for an administrative ruling regarding the R&D tax credit with the French tax administration (Direction Générale des Finances Publiques).
- With the Finance Law for 2021, **France** also harmonised the tax treatment of outsourced expenditures - R&D operations conducted by state service providers and accredited private providers. To date, the expenses incurred on R&D works subcontracted to state-funded service providers may be double counted when calculating the R&D tax credit. Moreover, the ceiling on subcontracted R&D expenditures can be raised from EUR 10 million to EUR 12 million in the case of R&D conducted by state-funded providers. These two mechanisms will be abolished with effect from **1 January 2022**.

## Trends in the generosity of R&D tax support

The generosity of R&D tax incentives has increased significantly in **France** over the 2000-21 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 tax credit was doubled from 5% to 10% in 2006.

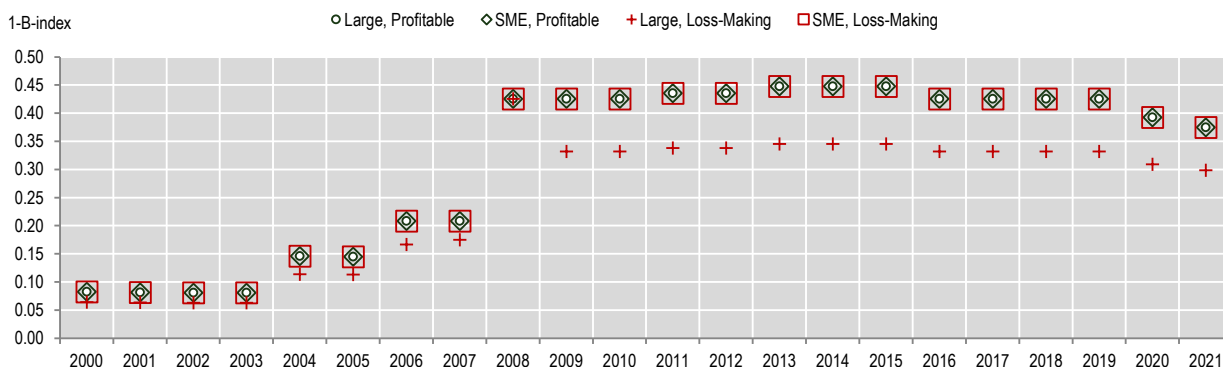
In 2008, the French R&D tax credit became entirely volume-based and the tax credit rate was raised to 30% for eligible R&D expenditure up to EUR 100 million, leading to a substantial increase in the implied marginal tax subsidy rates estimated for firms in the profit (loss)-making scenario. Tax subsidy rates are identical for all types of firms in 2008 due to a temporary relief measure, allowing both SMEs and larger firms 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 tax subsidy rates are estimated for profitable and loss-making firms.

Over the 2010-21 period, changes in the value of baseline tax deductions, linked to adjustments in the statutory corporate income tax (CIT) rate, led to some smaller-scale fluctuations in the tax subsidy rates in each of the four scenarios considered. **France** raised its CIT rate from 34.4% to 36.1% in 2011 and from 36.1% to 38% in 2013, leading to an increase of the value of baseline tax deductions and small increase in tax subsidy rates. Similarly, reductions in the CIT rate from 38% to 34.4% in 2016, from 34.4% to 32% in 2020 – coupled with a reduction in the fixed rate for operational costs from 50% to 43% of total staff costs with effect of January 2020 –, and from 32% to 28.4% in 2021 led to a small drop in implied marginal R&D tax subsidy rates.

For R&D expenditure above 100 EUR 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 in 2021 drops from 0.37 (0.30) to 0.35 (0.28) in the profit (loss-) making scenario, while the one for SMEs, operating below this threshold, remains unchanged.

**Figure 2. Implied tax subsidy rates on R&D expenditures: France, 2000-21**

1-B-Index, by firm size and profit scenario



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

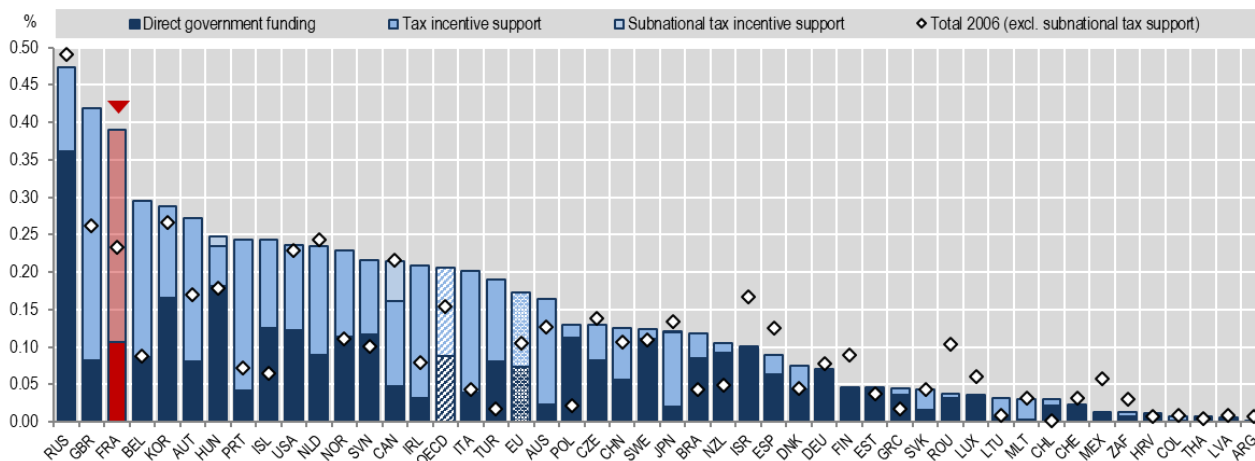
*Source:* OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

## Policy support for business R&D: the policy mix

**France** is placed among the 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 0.39% of GDP in 2019. This is nearly twice as much as the equivalent for the entire OECD area.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (nearest year)**

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

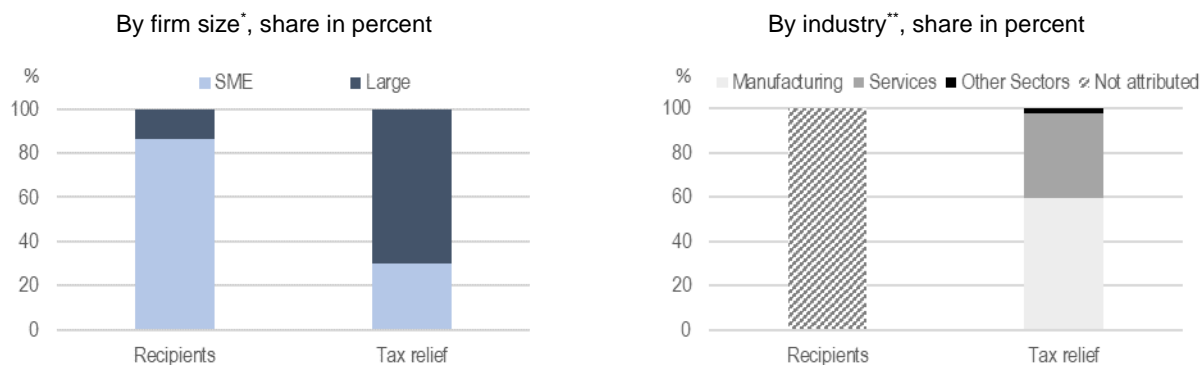
### Key points:

- From 2006 to 2019, government support for BERD as a percentage of GDP increased in **France** by 0.16 percentage point (pp), while the OECD average (2006-2019) increased by 0.05 pp.
- From 2006 to 2019, business R&D intensity in **France** increased from 1.29% to 1.44%.
- In 2019, R&D tax incentives accounted for 73% of total government support for BERD in **France**.

## Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

**Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2019**



Note: Figures refer to the CIR and JEI/JEU. \*SMEs are defined as firms with 1-249 employees. \*\*Economic activity is classified based on NAF rév2.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

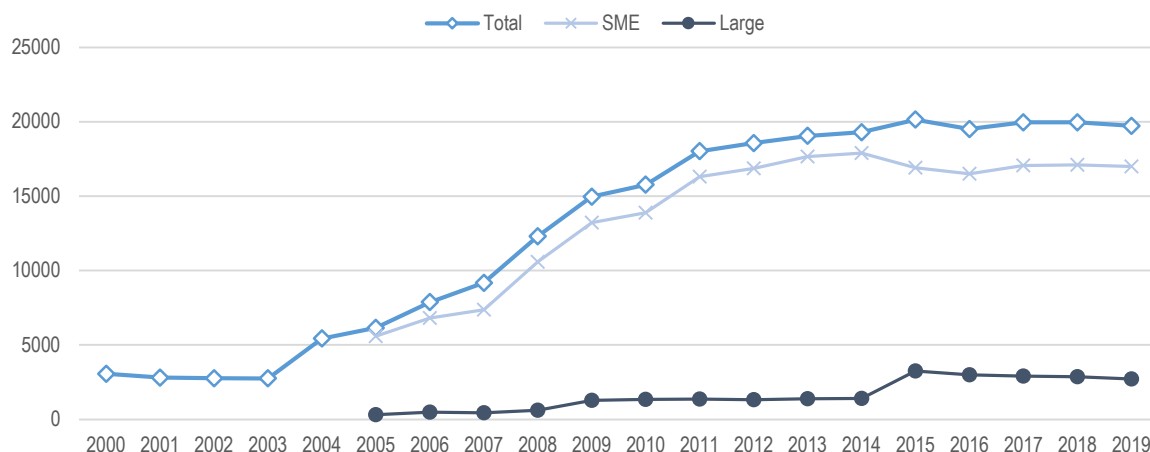
### Key points:

- In **France**, SMEs accounted for 86% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to around 30% in this year. 70% of R&D tax benefits were allocated to large firms, comprising 14% of the population of R&D tax relief recipients in 2019.
- In 2019, firms in manufacturing accounted for 60% of R&D tax benefits, while this share amounted to 38% in the case of firms in services. Data on the number of R&D tax relief recipients by industry are currently not available.

## Trends in the uptake of R&D tax incentives

Over the period 2000-2019, the number of R&D tax relief recipients increased more than six fold in **France**, reaching close to 19 720 in 2019. Most of this increase is attributable to SMEs. Between 2005 and 2019 (the period for which relevant data are available), the number of SMEs receiving R&D tax support increased from around 5 600 to 17 000, while the number of large firms receiving tax support increased from around 300 to 2 720. Over the 2005-19 period, SMEs accounted for more than 80% of R&D tax relief recipients in **France**, reaching a peak in 2014 (93%) to revert back and reach 86% in 2019.

**Figure 5. Number of R&D tax relief recipients, France, 2000-2019**



Note: Figures refer to the CIR and JEI/JEU.

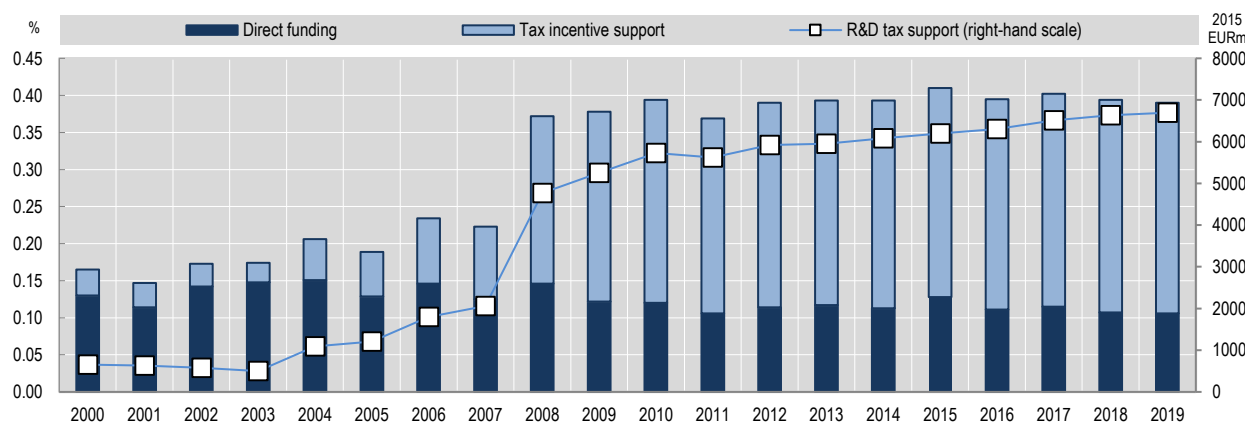
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

## Trends in government support for business R&D

Between 2000 and 2019, the importance of R&D tax support has increased significantly in **France**, both in absolute and relative terms.

**Figure 6. Direct funding of business R&D and tax incentives for R&D, France, 2000-19**

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) from 660 million in 2000 to around 6 700 million in 2019.
- 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 2000-19 period, representing 0.13% and 0.11% of GDP in 2000 and 2019 respectively.
- The share of R&D tax incentives in total government support increased significantly over this period, amounting to 21% in 2000, 32% in 2005 and 73% in 2019.

Please cite this note as: OECD (2021). "R&D Tax Incentives: France, 2021", [www.oecd.org/sti/rd-tax-stats-france.pdf](http://www.oecd.org/sti/rd-tax-stats-france.pdf), Directorate for Science, Technology and Innovation, December 2021.

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