Lithuania Corporate R&D Report 2014
In terms of the survey results, quite a low number of applicants have applied for R&D incentives, the main reason being a shortage of available information on them. Due to this, companies have unanswered questions about availability, eligibility and risk-management issues relating to making applications. Another issue relates to the relatively low awareness of available R&D tax incentives and grants, with only around half of companies being familiar with the incentives. It would therefore seem that both the public and private sectors in Lithuania should combine their strengths to bring about future improvements in the R&D area.

I would like to take this opportunity to thank all the companies that gave their time to completing the questionnaire so that we could share the results of this survey. I hope you will find our R&D Survey useful and inspirational, whatever your professional field.

Tatjana Vaiciulienė
Director, Tax and Legal Department
Deloitte Lithuania
Key findings:

• Lithuanian companies do not directly relate their future R&D expenditure to the availability of R&D cash grants and tax incentives;

• A sharp increase in R&D expenditure could be expected were institutions with adequate numbers of research personnel to become more open to co-operating with businesses;

• An overall positive background is emerging for growth in R&D expenditure as a majority of companies expect to increase their short and medium-term spending;

• The most widely known and implemented incentives among Lithuanian companies related to employee training and projects in co-operation with scientific institutions;

• A shortage of available information is the main reason for the low application rates for other R&D incentives;

• Responses to the survey indicate a potential lack of action from private and especially public institutions to increase the amount of information on available grants and incentives.
Deloitte’s 2014 Corporate R&D Survey reveals that Lithuanian companies, contrary to the common view, do not directly relate their future R&D spending to the availability of R&D cash grants and tax incentives. On the contrary, the survey suggests that the key factors in determining R&D spending over the upcoming year or two are related to the availability of skilled and experienced people, which is quite different from the trends identified in other Central European countries. Moreover, according to the survey, companies also strongly relate their R&D spending to the availability of access to universities and research institutions. Other important factors include the availability of skilled and experienced researchers.

In support of this view, Lithuanian companies that are actively engaged in R&D tend to work closely with external institutions that have adequate development resources, such as universities and public and private research centres. Based on the preferences expressed by companies in the survey, a sharp increase in R&D spending could be expected if institutions with sufficient numbers of research personnel became more open to co-operation with businesses.

An overall environment of growing R&D expenditure appears to be taking shape as a majority of companies in Lithuania, as well as across the Central Europe region, say they expect to increase their spending in both the short and medium terms.

The survey was less encouraging with respect to awareness of the available R&D tax incentive and grants. This is not very high – only around half of the surveyed companies are familiar with the incentives, which is especially disappointing given that the R&D tax and other incentives have already been available for at least five years.

The most widely known and implemented incentives by Lithuanian companies are those relating to employee training and projects undertaken with scientific institutions. The main reason for the low application rates for other R&D incentives is a shortage of information on factors like availability, eligibility and risk-management issues.

The responses to the survey suggest that private and especially public institutions are not improving access to information on available grants and incentives. In cases where such information is accessible, there are not always adequate guidelines or consultation mechanisms in place to assist companies in actually receiving the available relief. An increase in the providers of private consulting services on R&D qualification could therefore be anticipated in years to come, as demand is not expected to dry up.

Key conclusions
Evaluation of the Survey Results

Treatment of R&D activities in Lithuanian companies

According to the survey, Lithuanian companies treat their R&D activities in a pretty straightforward manner (i.e. as described in the Frascati Manual 2002 and the Law on Corporate Income Tax of the Republic of Lithuania). 75% of the respondents ascribe their R&D activities to the development of new products, processes and services. In addition, half of the surveyed companies also characterise their R&D activities as improving existing products, processes or services rather than just the development of new ones.

Activities like collaboration with other organisations during scientific projects or developing innovations for various markets are not necessarily recognised as being R&D activities by the majority of Lithuanian companies. The preceding descriptions were mentioned by 25% and 13% of the respondents of the survey.

This may imply that they currently only see R&D as improving a product, and do not always look at R&D operations from the perspective of interaction with other market participants, be they competitors or partners.

Lithuanian companies vary on the protection measures they use to protect the results of their R&D projects. Whereas a quarter of respondents claim that they do not have any measures in place to protect their R&D intellectual property and know-how, others commonly use numerous means of protection. The most common protection measure is the organisation’s secrecy policy, which half of respondents use. This may be a result of the fact that most R&D outcomes are achieved at a level not requiring legal registration.

Other measures applied included the use of trademarks (applied by 38% of respondents), patents (25%), copyrights (25%) and industrial design (13%).

What do companies consider as R&D?

- Development of new products/processes/services: 75%
- Change/improvements of existing products/process/services leading to better performance/characteristics: 50%
- Joint realisation of scientific projects aiming at improvement or development of new products/processes/services with other group entities/companies: 25%
- Cooperation with external entities by means of purchasing R&D services/know-how: 0%
- Developing important innovation/a breakthrough solution for various markets: 12.5%
- Familiar with R&D grants and use them: 0%
- Familiar with R&D grant opportunities but do not use them: 0%
- Familiar with R&D grant opportunities but grant opportunities relevant to our company would require involvement of partners (consortium), but the nature of our R&D project/our business interests do not allow such co-operation with third parties: 0%
- Familiar with R&D grant opportunities but has no sufficient resources to monitor such opportunities and eventually prepare successful application(s): 0%
- Not very familiar with R&D grants: 0

Other factors:
- Access to the R&D sectoral benchmarks: 0%
- Costs of researchers: 0%
- Availability of experienced researchers: 0%
- Availability of skilled researchers: 0%
- Access to and cooperation with universities/research institutes: 0%
- Possibility of co-financing costs of IP protection procedures, including costs of protection maintenance period: 0%
- Protection of intellectual property rights: 0%
- More R&D cash grants compared to R&D cash grants: 0%
- More R&D cash grants compared to R&D tax incentives: 0%
- Availability of more types of benefits: 0%
- Stability of the regulatory environment: 0%
- Programmes financing trainings for employees: 0%
- Invest LT programmes: 0%
- Programme Horizon 2020: 0%
- Incentive for commercialisation of R&D results: 0%
- Projects implemented together with science institutions under the programmes of fostering of partnership between business and science: 0%
- Incentive for free economic zone companies: 0%
- Incentive for investment projects: 0%
- Incentive for R&D: 0%
- 12.5%
- 75%
- 50%
- 25%
- 0%
R&D expenditure

The companies which responded to the survey could be divided into two large groups: (a) companies that have invested an insignificant proportion of their revenue in R&D; and (b) companies which have reinvested a moderate-to-significant part of their annual turnover in R&D. The latter group is much larger – 63% of the companies that responded to the survey claimed that they had invested more than 5% of their revenue in R&D activities, whereas a significantly smaller share (37%) told us they invest no more than 3% of their turnover in R&D. This should be seen as a positive sign from a market competition perspective.

In addition to this current trend, companies in Lithuania, similarly to respondents in other Central European countries, do not expect to make any decrease in their overall spending on R&D in the short-to-medium term (up to five years). To demonstrate this, 50% of respondents are planning to increase their development activities in the immediate future (one to two years). As for the next three to five years, the proportion of what might be called ‘R&D expenditure optimists’ rises even higher to 63%.

It should be noted that the remaining survey participants do not see their R&D expenses either increasing or declining within these periods.

Unlike the answers provided in other Central Europe countries, Lithuanian-based companies claimed that the most important external factors influencing future R&D spending are access to and communication with universities and research institutes, as well as the availability of skilled and experienced researchers.

Meanwhile, the companies do not consider the stability of the regulatory environment, access to the R&D sectoral benchmarks or the relative share of R&D cash grants and R&D tax incentives to be the most significant factors.

Based on the survey answers, it would appear that people, knowledge and ideas are seen as the decisive elements in fuelling R&D investments. This is why Lithuanian companies, when carrying out R&D activities, collaborate actively with a range of public and private sector organisations that have access to appropriate personnel and technology.
This trend is confirmed by the results of the survey; all the companies that carried out R&D activities in 2013 did so in co-operation with universities or academies of science, while 60% of such companies worked with public or private scientific institutions as well. These organisations can not only make available the required researchers, premises and equipment – they may also be able to provide much needed insights during the development process.

Such assistance from universities and research centres is likely to remain one of the key supporting pillars for companies engaged in R&D, due to the expected increase in R&D-related spending.

Factors influencing the increase of companies’ R&D spending for 1-2 years

- Stability of the regulatory environment: 1.13
- Availability of more types of benefits: 1.63
- More R&D cash grants compared to R&D tax incentives: 1.0
- More R&D cash grants compared to R&D grants: 0.75
- Protection of intellectual property rights: 1.25
- Possibility of co-financing costs of IP protection procedures, including costs of protection maintenance period: 1.13
- Access to and cooperation with universities/research institutes: 2.25
- Availability of skilled researchers: 2.13
- Availability of experienced researchers: 2.0
- Costs of researchers: 2.0
- Access to the R&D sectoral benchmarks: 0.75
- Other factors: 0.4
Grants and tax incentives
Despite the fact that R&D tax relief has been available for companies in Lithuania since 2008, it was still not widely known by the companies participating in the survey.

Of the various R&D related grants, 50% of respondents knew about the R&D tax incentive and the incentive for commercialising the outcomes of R&D activities. More respondents – 63% - knew about programmes fostering partnerships between business and science and those financing employee-training.

Due to the limited awareness of available R&D incentives, fewer than 40% of respondent companies said they had used them in the past. Around the same proportion has used the incentive for commercialising R&D results. However, it should be noted that other incentives, including those for investment projects and for free economic zone companies, were used even more sparingly (by just 13% of respondents). Program Horizon 2020, which aims to finance all parts of the innovation chain from the EU structural funds, has no users at all among the surveyed companies.
A third of the companies that are not using the R&D incentives are not doing so due to a shortage of information. This finding ought to encourage governmental institutions and private consulting firms to inform companies more extensively about available incentives and the possible savings they can mean for business.

A significant share of the companies that know about the R&D incentives do not actually apply for them, as the application process requires substantial resources and expertise.

The same obstacle arises when we come to applications for the R&D tax incentive – while 50% of surveyed companies are aware of it, they are either uncertain about which activities could be classified as R&D and how to demonstrate this fact, or are unfamiliar with the methods used to manage risks related to classifying their activities as R&D. Companies should therefore be brought up to speed on how to apply, by public institutions or private firms. It should be recognised that this would be beneficial for companies and the government alike.

As discussed earlier, Lithuanian companies rarely undertake R&D activities on their own. Based on the answers provided in the survey, the majority of companies (71%) that collaborate with third parties in R&D projects choose to partner with universities (a similar finding to that in other Central European countries). In addition, 60% of collaborative companies have also been consulting on their projects with public and private R&D/scientific institutes. These figures support the notion that universities and public and private research centres are important components of the R&D project value chain, as they are able to provide much needed external personnel, expertise and equipment nearly regardless of the sector in which the company operates.

Companies themselves consider co-operation with third parties as an inseparable part of their R&D projects, claiming that these would not be possible without external assistance. 20% of companies using the support of external entities did so as part of structured financing practices – in other words, such co-operation was either required by the local authorities granting the project finance, or the companies themselves treated the financing they received as a form of co-operation with third parties. The answers to this question also raise questions about the scale and quality of companies’ internal R&D capabilities.
R&D qualification procedure

According to the Law on Corporate Income Tax of the Republic of Lithuania, entities carrying out R&D activities are entitled to the super deduction (300%) of the expenses incurred in these projects in the tax period during which they were incurred. The list of eligible groups of costs is established in Order No. 1183 of the Government of Lithuania, dated 19 November 2008.

Companies are able to apply this deduction without any confirmation by the tax authorities. However, the tax authorities may challenge the treatment of activity as R&D during a tax audit or a tax investigation. As a result, they may calculate a new amount of deductible expenses as well as a possible additional amount of tax. Penalties and late interest payments may also be imposed. The obligation to prove that the activities of the company meet the criteria of the R&D project, and that the incurred expenses are therefore eligible for super deduction, falls on the tax payer.

In order to demonstrate eligibility for the R&D tax incentive, the applying tax payer is obliged to prepare written R&D project documentation, approved by a director of the company or another authorised person. This must include information on various aspects of the project, such as a description of its objectives and processes, an indication of the innovative elements and technological uncertainties related to the work, and a precise definition of the expenses incurred.

In relation to issues arising from the treatment of expenses as R&D costs, any debatable questions are analysed by experts from the Agency for Science, Innovation and Technology (MITA) at the request of the tax authorities. MITA, which comprises well-known specialists from business, science, education and other fields, was established in 2010 mainly to counter the potential for such debates.

If tax payers are not certain whether or not their activities may be treated as R&D, they can apply to MITA with the inquiry, providing full information including the objectives of the project, the employees working on it, the stages it comprises and its results. Detailed directions on how to apply are provided in Order No. 2V-72 by the Head of MITA, dated 16 July 2012.

Despite the above, it should be noted that there is substantial room for improvement in the application process for R&D incentives, including the incentive for tax, both for business entities and public/governmental institutions.
Regional perspective
Central European countries are in the process of transforming into knowledge–based economies. They can no longer compete with low-cost labour on the global market. This has already been acknowledged by Asian countries, whose share in global spending on R&D is still rising – from 33% in 2009 to nearly 40% in 2014 (and China’s from 10% to nearly 18%). In the meanwhile Europe is decreasing its participation – down from 26% of the total in 2009 to 22% in 2014.

After political changes, countries in the region have begun their transformation from a similar level although currently they are at different stages of development.

The European Commission’s Innovation Union Scoreboard 2014 shows that among countries taking part in the survey, only Estonia is ranked in the group of so-called innovation followers (those whose innovation performance is close to or above the EU average). Croatia, the Czech Republic, Hungary, Lithuania, Poland and Slovakia are among the moderate innovators with performance below the EU average, while Bulgaria, Latvia and Romania are rated as modest innovators (innovation performance well below the EU average).

Innovation-wise we all are looking in the same direction. However, a differentiated approach to supporting R&D is apparent across the region. As the findings of last year’s survey showed, the R&D activities of companies vary across the region and different factors are influencing increase of spending on R&D. Much is however to be learnt and shared – this is one of main reasons for covering additional countries in this year’s survey, gathering data from 10 countries in the region. This brings us the opportunity to compare how countries stimulate R&D activities, how implemented systems are evaluated by enterprises and how this impacts the effectiveness of various systems.

Supplementary to the on-line survey, we have conducted detailed interviews with representatives of some of the best-known R&D developers in the region. Key quotes from these interviews provide a valuable complement to the survey conclusions presented in the report.

I very much hope that you find this report an interesting and insightful read.

Magdalena Burnat-Mikosz
Partner
Central European Leader for Deloitte R&D and Government Incentives Service Line

1 2014 Global R&D Funding Forecast by Battelle and R&D Magazine
Key trends and findings:

• Availability of more types of incentives is still the most important factor affecting the level of expenditure on R&D. Results of the survey show that cash grants are only a slightly more frequently expected incentive than tax reliefs – a mixed system, combining these two schemes, is perceived as the most effective way to support companies’ R&D activities. In order to maintain the present rising trend of companies’ share in R&D expenditure, it is essential to adjust the support schemes available in Central Europe to match enterprise expectations.

• Predicted percentage of R&D expenditures is declining overall – more companies are allocating less than 1% and under 3% of their turnover to R&D, while those allocating over 10% have declined from 24% to 22.1% of the sample. As indicated above, the availability of incentives strongly influences R&D spending; this means slightly pessimistic forecasts regarding short-term R&D spending may result from ongoing work on support schemes under the EU 2014-2020 agenda and limited availability of grants.

• Increasing numbers of companies are collaborating with research units, indicating a trend towards strengthening co-operation between business and science. The proportion of companies with their own R&D centre is also growing, and this results in the fact that the availability of skilled and experienced researchers is one of the most important factors influencing R&D expenditure. However, the possibility of co-operating with universities / research institutes is still highly appreciated and desirable in R&D activities.

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2 In 2011 BERD (Business Expenditures on R&D) index value for Europe Union was 54.9% and only Estonia had this index value above the average (55%). The lowest index was in Bulgaria (16.9%), Latvia (24.8%), Poland (28.1%) and Lithuania (28.2%) – Eurostat
We can see a number of changes in how companies define R&D and their R&D activities. While the proportion of firms in 2014 defining R&D as changes / improvements of existing products / processes / services leading to better performance / characteristics of products / processes / services has fallen from 67% to 65.2%, this selection has also moved up from third to first place. The leading definition in 2013 (Development of new products / processes / services) has fallen from 88% to 60%, while the third most popular definition is joint realisation of research projects aimed at improvement or development of new products/processes/services with other capital group entities/companies. (It rises from fourth to third despite a reduction in support from 49% to 29.4%). Clear and transparent understanding of R&D is being underlined by firms in the region as important factor for all support schemes.

IP / know-how are protected usually in the form of a company secrets policy and trademarks. However, companies declare that the most effective way is to combine different forms of protection and tailor them to the specific needs of different sectors.
Definition of companies’ R&D activities

Within last year’s survey, respondents were asked to define their understanding of R&D. This year, we invited them to describe their R&D activities – and there have been some major changes in their answers.

In the 2014 report, 65.2% of companies across the region defined R&D activity as making Changes/improvements to existing products/processes/services, leading to better performance/characteristics of products/processes/services. This was a small decline comparing to 2013’s 67%, but despite this the definition has moved up from number three to the number one choice. Its new popularity was driven up by above average selection in Estonia (87.5%) and Romania (78.6%).

In the 2013 report, the leading definition of choice was the Development of new products/processes/services, chosen by 88% of respondents. In 2014, this has slipped to 60%, although it attracted 75% of respondents in Lithuania.

In the 2013 report, the third most popular definition was Joint realisation of research projects aimed at improvement or development of new products/processes/services with other capital group entities/companies. In 2014’s third most popular definition, with 29.4%, is the Joint realisation of research projects aimed at improvement or development of new products/processes/services with other capital group entities/companies. In the 2013 report, this was number four with 49%. This year, it was driven up by above average scores in Romania (over 46%) and Estonia (over 37%).

Perhaps the most significant change in the definition of R&D activities appeared within the Cooperation with external entities by means of purchasing R&D services/IP/know-how. This has been observed particularly among Polish respondents – last year, 68% declared that it is how they understand R&D activities; this year, that figure went down to 19.4%.

Findings

What best describes your R&D activity?

<table>
<thead>
<tr>
<th>Definition</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Changes/improvements of existing products/processes/services</td>
<td>67.0%</td>
<td>65.2%</td>
</tr>
<tr>
<td>Development of new products/processes/services</td>
<td>60.0%</td>
<td>60.0%</td>
</tr>
<tr>
<td>Joint realization of research projects aiming at improvement of new</td>
<td>49.0%</td>
<td>29.4%</td>
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<tr>
<td>products/processes/services with other capital group entities/companies</td>
<td></td>
<td></td>
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<tr>
<td>Developing important innovation/a breakthrough solution for various</td>
<td>25.0%</td>
<td>24.5%</td>
</tr>
<tr>
<td>markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cooperation with external entities by means of purchasing R&amp;D services/</td>
<td>13.9%</td>
<td>13.9%</td>
</tr>
<tr>
<td>IP/know-how</td>
<td></td>
<td></td>
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</tbody>
</table>
Spending on R&D

The 2014 report shows that in 2013 20.6% of companies allocated less than 1% of their turnover to R&D — this went up from 15% in 2012. There was also an increase in companies allocating less than 3% of their turnover to R&D (rising to 41.8% from 36% in 2012).

Meanwhile, just 22.1% of companies allocated more than 10% of their turnover on R&D, down from 24%. However, in Slovakia (as in the previous year) and Bulgaria the percentage is well above average at 54.5% and 40% respectively.

Only 5.5% of companies allocated no expenditure for R&D activities in 2013, down from 2012’s 10%. Hungary (17.8%) and Poland (9.7%), however both significantly exceeded the average.

20.5% of companies in Croatia, 12.1% in Slovakia and 11.1% in Poland do not know how much expenditure has been allocated to R&D activities. In Poland, this might be the case because there are no effective incentives in place that encourage them to keep solid records of their R&D expenditure.

Across the region, 88.5% of companies plan to maintain the current level of spending or increase it in the short term (one to two years). At the same time, 89.7% expect to maintain or increase spending in the next three to five years. All the respondent companies in Lithuania and Estonia are confident that there will be no decrease in spending on R&D over the next five years.

Across the region, 4.8% of respondents expect to make no expenditure in the next five years - only in Bulgaria, Estonia and Lithuania did no respondents make this claim. It is also worth noting the results from Romania, where 67.9% of companies plan to increase expenditure in the next two years and 78.6% in the next three to five years (the averages for the region are 42% and 58% respectively).

Responses indicate positive forecasts in terms of the economic situation of companies, and may result from the fact that in years to come significant R&D support will be available from EU funds.
To what extent would the external factors mentioned below influence the increase of your R&D spending in the coming 1-2 years?

- Availability of more types of benefits: 2.11 (2014) vs. 2.22 (2013)
- Availability of skilled researchers: 1.94 (2014) vs. 1.92 (2013)
- Availability of experienced researchers: 1.87 (2014) vs. 1.78 (2013)
- More R&D cash grants compared to R&D tax incentives: 1.82 (2014) vs. 1.67 (2013)
- Costs of researchers: 1.44 (2014) vs. 1.54 (2013)
- Access to and cooperation with universities / research: 1.42 (2014) vs. 1.5 (2013)
- Stability of the regulatory environment: 1.36 (2014) vs. 1.61 (2013)
- More R&D tax incentives compared to R&D cash grants: 1.32 (2014) vs. 1.29 (2013)
- Protection of intellectual property rights: 1.28 (2014) vs. 1.21 (2013)
- Access to the R&D sectoral benchmarks: 1.32 (2014) vs. 1.29 (2013)
- Possibility of cofinancing costs of IP protection procedures, including costs of protection maintenance period: 1.21 (2014) vs. 1.23 (2013)

Other factors: 0.32 (2014) vs. 1.14 (2013)
As in the previous survey, the most important factor affecting the level of expenditure on R&D over the next two years is to be the availability of more types of incentives – this was chosen as the most important factor by more than 50% of companies in Bulgaria, Estonia and Romania, and almost 54% of companies in Poland.

The next most important factors are the availability of skilled and experienced researchers (particularly important in Bulgaria and Lithuania, where it is the most important factor for over 60% of companies) and issues related to the cost of R&D activities (selected by 50% of companies from Lithuania).

Respondents indicate that the availability of grants stimulates spending more than the availability of tax incentives. This is particularly the case for companies in Bulgaria and Poland, where 48% or more chose this answer. The importance of grants is growing too – in 2014, they were chosen by 34.5% of respondents across the region, compared to 22% in 2013.

In Slovakia, while over 50% of companies declare that grants are more important than tax incentives in influencing their R&D expenditure, only 12% say more tax incentives would not be an influencing factor. This is of significant importance as a new tax incentive is to be introduced there on July 1st 2014, which is expected to have a positive impact on R&D spending in Slovakia.

One factor that has declined in importance is the stability of the regulatory environment. In 2013, this was the factor with the greatest impact on expenditure for 22% of respondents; in 2014, it has fallen to 18.8%. This may mean that there is a generally positive attitude to those authorities that have not made significant changes in the legislation regulating R&D.

Almost 47% of companies in Latvia consider the possibility of co-financing the costs of IP protection procedures, including the costs of maintaining protection, to be a factor with no influence on their R&D spending.

The international experience of GM indicates that the availability of incentives for R&D activities, that may be an element of a long-term development strategy, significantly facilitates “acquisition” and execution of high-tech projects by companies in local countries.

Paweł Widel, Governmental Relations Director, General Motors Poland Sp. z o.o.
Companies’ R&D policies and Intellectual Property / know-how protection

Almost 21% of companies in the region say they have no R&D policy. Clearly above average in having no policy are companies from Estonia (50%), Hungary (42.2%), Croatia (28.2%) and Poland (27.8%).

The key factors for the majority of R&D policies are sources of funding and the availability of appropriate human resources. In terms of R&D financing, an above average number of responses indicate that this is the most important factor for companies from Romania (57.1%), Slovakia (45.5%) and Poland (43.1%).

At the same time, 15.6% of companies from Hungary declare that this is a factor without any influence at all on their R&D policy.

Significant numbers of companies in Romania (60.7%), Slovakia (54.5%) and Lithuania (50%) recognise Human capital management focused on recruiting and retaining the most valuable people as the most important factor.

Please rate importance of the following aspects in your firm’s R&D policy
(0 - no influence, 3 - highest influence)

- R&D financing: 1.96
- Human capital management focused on recruiting and retaining most valuable people: 1.92
- R&D portfolio management: 1.80
- External cooperation: 1.48
- Existence of R&D procedures: 1.46
- IP protection policy: 1.44
- R&D organizational structure: 1.34
The most common means of protecting IP / know-how (at 64.8% firms across the region) is the company secrets policy. This is above average in Estonia (87.5%), Croatia (79.5%) and Poland (76.4%). The trademark is the most popular form of protection in Romania (75%) and Bulgaria (53.3%). 44.2% of companies in the region benefit from patent protection, but only 23.1% do so in Croatia and 20% in Latvia. While 9.7% of companies in Central Europe do not protect their IP / know-how, this figure is significantly higher in Hungary and Lithuania (25%). All respondents from Romania and Estonia declared that they protect their IP / know-how.

The most efficient and effective way to manage intellectual property rights is a tailor-made policy that combines patents and trade secrets protection.

Łukasz Socha, Vice President, HS Wrocław sp. z o.o.

How do you protect Intellectual Property / know-how in your company?

- Company secrets policy: 64.8%
- Patents / utility design: 43.0%
- Trademark: 41.5%
- Copyright: 30.0%
- Industrial design: 20.0%
- None: 9.7%
Usual usage of R&D grants and tax incentives

Increasing numbers of companies say they are not very familiar with the methods of managing risks associated with the classification of their activities as R&D; this has risen from 19% in 2013 to 22.7% in this year’s report. Also rising are those saying that R&D tax regulations are not clear and present the company with too many risks (up from 18% to 22.1%). These findings may mean that the systems of R&D tax incentives are becoming unclear; fewer companies are therefore benefiting from it, leading to a strong preference for grants (as shown by the answer to the previous question). There is a lack of knowledge about tax incentives among 67% of companies from Bulgaria. In Latvia, 60% of companies state that they do not carry out any R&D activities or projects that would be eligible for R&D tax incentives. This is an important finding given the introduction of a new R&D tax incentive on July 1st 2014.

Companies’ statements about R&D tax incentives

My company is rather unfamiliar with R&D tax incentives

My company is uncertain about the approach of the tax authority with respect to R&D costs; therefore I find the use of these tax incentives risky

My company is not very familiar with the methods on how risks related to classification of its activities as R&D could be managed

R&D tax regulations are not clear and are presenting too many risks for the company

My company is familiar with R&D tax incentives but uncertain about which activity could be classified as R&D and how to prove that its activities are R&D (classification of activities as R&D activities)

I believe that my company does not carry out any R&D activities / projects that would be eligible for R&D tax incentives

My company is familiar with how to prove that its activities are R&D but the company’s reporting / cost tracking / time sheet / etc. systems are not capable of appropriate recording / proof of related costs

Other

2014
2013
Across the CE region, 37% of companies are familiar with and use R&D grant opportunities (up from 31% in the 2013 survey). This proportion is particularly high in the Czech Republic (almost 60%) and far below average in the Baltic countries (16%). At the same time, 23% of respondents across the region are not very familiar with R&D grants (rising to 43.6% in Croatia and 42.9% in Romania).

In addition, 19.4% of respondents indicate that they do not have sufficient resources to monitor grant opportunities and submit a successful application (down from 25% in 2013); in Poland, however, the figure is almost twice as high at 36.1% (an increase from 29% in 2013). Such answers about discouraging bureaucracy and doubts concerning the use of available sources of support are particularly alarming when we consider that companies claim that their R&D spending is largely determined by the availability of external funding.
Co-operation with third parties while carrying out R&D projects

A very high proportion (78.2%) of companies say they work with third parties during the implementation of R&D projects (up from 65% in 2013). While the most important primary factor driving co-operation across the region is that it’s vital to carrying out projects, grant requirements and the possibility of receiving higher funding are almost equally important in Poland. For those companies that have their own R&D centres (either within the immediate structure of the business or in a sister firm in the same capital group), this is the most important reason for not collaborating with third parties.

Cooperation with third parties when the companies are carrying out R&D projects
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