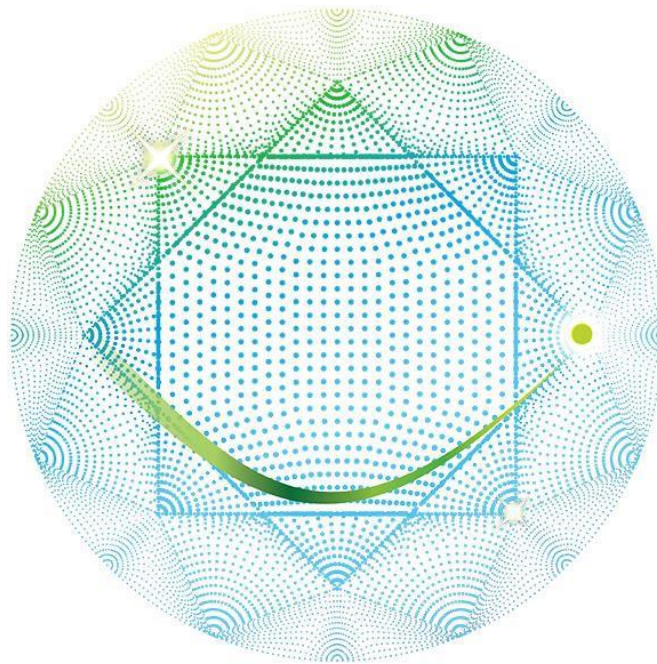




Grants and incentives

Life Sciences and Healthcare (LSHC) industry

Tax incentives and government grants have a surprisingly long history that stretches back thousands of years, driving businesses toward innovation and sustainability investments. Within the LSHC sector, renowned for its intensive R&D nature, these grants and incentives have always been vital resources. As the global landscape and its needs evolve, so does the array of offerings, tailored to meet contemporary demands. For companies, staying attuned to the dynamic availability of grants and incentives is crucial, necessitating a strategic and coordinated cross-business approach to fully leverage these opportunities for continued growth and development.



What are grants and incentives?

A **tax incentive** is “a government measure that is intended to encourage individuals and businesses to spend money or to save money by reducing the amount of tax that they have to pay”¹. Different design principles have been deployed by governments worldwide, but generally, tax incentives either affect the tax base (e.g., patent box, R&D super deduction) or the tax amount (e.g., tax credits).

Similarly, a **government grant** is defined as “an amount of money that a government or other institution gives to an individual or to an organization for a particular purpose.”² Government grants are often awarded following an upfront application process wherein applications are assessed on their excellence, socio-economic impact, or other eligibility criteria depending on the purpose of the grant. Unlike tax incentives, grants don’t often fall within the

responsibility of tax administrations but are awarded by other (regional) government administrations or agencies targeting to support specific policy priority areas (e.g., innovation, sustainability, and more).

Government grants and tax incentives vary by territory, but continue to be a lever for governments worldwide to encourage investment and innovation in their economy, and have become part of many governments’ innovation and tax support policy toolbox. Increasingly, grants and incentives are being used by governments to encourage investment in particular industries as part of their global trade policy^{3,4}. Furthermore, for businesses, grants and incentives can be an effective tool to aid effective tax rate (ETR) or EBITDA management. In a post-Pillar Two world, grants and incentives become even more critical to businesses’ tax planning strategies.



Grants and incentives as policy instruments

Grants and incentives are important policy instruments for governments to secure/improve the competitiveness of their regions and to attract strategic investments to their ecosystem. Moreover, governments worldwide increasingly rely on grants and incentives to promote private R&D and innovation investment and react to socio-economic and political developments through the deployment of new or enhanced grants/incentives instruments^{3,4}.

Minimum tax

Pillar Two, as agreed in October 2021, establishes a global minimum effective corporate tax rate of 15% for large multinational enterprises (MNEs). The introduction of the minimum tax rate of 15% has a significant impact on the overall grants and incentives landscape. As tax incentives target to reduce the taxable profit and hence the tax amount due, the resulting tax benefit could be partially or fully neutralized by a top-up tax in case an MNE's ETR drops below 15%.

However, where tax incentives meet certain criteria to be qualified as a Qualifying Refundable Tax Credit (QRTC), these are treated as Pillar Two GloBE income and not a

reduction in covered taxes. This therefore generally lessens the impact on the ETR. An example of such an incentive would be a refundable R&D tax credit.

Where incentives do not qualify as an QRTC (e.g., super-deductions, IP Box schemes, tax holidays, etc.), the benefits do need to be taken into consideration in the calculation of covered taxes, potentially resulting in a neutralization of the tax benefits by a top-up tax in case the MNE's ETR in the jurisdiction is less than 15%.

Following the introduction of Pillar Two, multiple jurisdictions (e.g., Ireland, Belgium, Switzerland, and others) have reconsidered the design of their tax incentives regimes regarding whether they would be likely to be QRTCs and have been adapting tax incentives regimes to secure their effectiveness. For example, the Belgian parliament adopted an amendment to its IP box in 2024, i.e., innovation income deduction (IID), allowing taxpayers to defer the use of all or part of the IID to future years. Taxpayers may limit the use of the tax benefit in a given year to achieve a minimum tax rate of at least 15% and carry forward the remaining tax benefit indefinitely in the form of a non-refundable tax credit.

It is likely there will be a shift in the

global grants and incentives landscape toward subsidy-like tax incentives (i.e., QRTC) or government grants to comply with international tax standards⁵.

Moreover, due to increased focus on value creation and economic substance, the impact of Pillar Two will drive governments to only privilege profits with a direct connection to the value created within their regions. As a result, this will likely drive global companies to revisit the location of their (R&D) activities, as well as their existing and future intellectual property (IP).

COVID-19 pandemic

As a response to the COVID-19 pandemic, governments worldwide introduced or invoked grants and incentives to facilitate rapid innovation in vaccines, medicines, companion diagnostics or biomarkers, medical devices, and consumer products to combat COVID-19. Notably, during the pandemic, governments across the world reacted differently. Some governments generally made their grants and incentives schemes more generous in all industry sectors, whereas others focused on creating new incentives to accelerate R&D in the life sciences and healthcare sector (LSHC) specifically. In addition, new grants and incentives have been deployed

to improve pandemic preparedness by enhancing access to raw materials, intermediates and finished goods through the enforcement of local manufacturing capabilities.

Moreover, countries where manufacturing is embedded in local and regional networks have been able to respond faster to crises due to access to manufacturing capacity, access to raw materials, knowledge, and quality assurance and standardization capabilities.⁶ Consequently, a general trend toward setting up strategies to reshore manufacturing capabilities and boost R&D have been established by governments with low manufacturing footprint through the enactment of grants and incentives schemes aimed at attracting investments in manufacturing facilities, as well as supply chain improvements.

Energy crisis and industrial resilience

Following the energy crisis in 2022, the European Commission introduced the Clean Industrial Deal (CID), which outlines concrete actions to turn decarbonization into a driver of growth for European industries by implementing a new industrial strategy focused on the energy transition, minimizing the regulatory burden, and mobilizing finance. Specifically, the CID will mobilize over €100 billion to support EU-made clean manufacturing. A new Clean Industrial Deal state aid framework will also be adopted to accelerate the approval of state aid supporting the rollout of renewable energy, decarbonization of renewable European industry, and enhancing the manufacturing capacity of clean technologies across Europe.

As recently as Spring 2025, the increase in activity regarding trade tariffs imposed on the international community continued the trend post-COVID as businesses and jurisdictions seek to protect

themselves from further shocks in international trade by onshoring innovation and manufacturing activities.

Furthermore, the recent enactment of the new US tax law commonly referred to as the One Big Beautiful Bill (OB BB) Act, enforced the introduction and enhancement of several tax incentives favoring companies investing in domestic R&D, manufacturing capacity and supply chains, aimed at boosting industrial resilience of the US. As the private sector pivots to consider the impact of global uncertainty on its investment plans, it remains to be seen how governments across the rest of the world may respond by adapting their policy instruments, such as grants and incentives, to encourage investment in their jurisdictions.



Value of grants and incentives for the LSHC industry

In an era marked by constant economic uncertainty, geopolitical tensions, tariff conflicts, and minimum tax regulations, businesses have become increasingly cautious in their investment decisions. Stringent zero carbon emission legislation further necessitates substantial investment in sustainable innovation, imposing further pressure on capital allocation.

Despite the need to invest in innovation and sustainability, companies often face limited budgets and risks associated with R&D ventures, which can lead them to favor less risky investment projects. To overcome these challenges, grants and incentives present a vital resource, enabling businesses to de-risk and expand their investment portfolios with high-risk, breakthrough innovation or strategic investment projects.

The considered use of grants and incentives along the entire LSHC value chain fosters long-term growth and competitiveness.

Research and development

The OECD has reported that countries like Belgium and the United Kingdom, despite having high statutory corporate tax rates, have been investing substantially in attractive government support for R&D and have been experiencing strong growth in biopharma value indicators (e.g., employment, and R&D investments.)^{7,8}.



Many other governments seek to promote investments in R&D and innovation through a combination of tax incentives and grants. In 2022, 33 of the 38 OECD countries offered R&D tax incentives, up from 19 OECD countries in 2000⁷.

Government support for R&D aims not only to fuel business's R&D projects and capital investments in R&D infrastructure, but it also aims to incentivize companies to anchor their IP domestically. Anchoring IP within the country builds competitive advantage by attracting (future) revenues and providing quick access to novel technological capabilities. As a result, governments have increasingly enacted IP box schemes. In 2021, 22 out of 38 OECD countries and 17 out of 27 EU countries offered income-based tax support for R&D and innovation⁹.

While mechanisms for R&D relief may differ, R&D schemes are often based on similar principles across the globe. For example, the definition of R&D and of its components (i.e., basic research, applied research and experimental development) as defined by the OECD in its FRASCATI manual¹⁰, has been widely adopted for tax purposes to define the boundaries and exclusions of R&D. Tax administrations worldwide use this universal definition to assess the qualification of projects or investments as R&D and their eligibility for R&D relief.

Historically, government support for R&D through G&I has not been sector specific. Over time, there has been a noticeable increase in sector-specific grants and incentives, with a peak in growth for the LSHC sector during and after the pandemic. Today, various R&D schemes are offered by governments worldwide to the LSHC sector along its R&D value chain.

In addition to direct R&D schemes, there is a multitude of grants and incentives support available for setting up public-private partnerships, further stimulating

cross-fertilization through industry-academia collaborations and accelerating scaling and adoption of breakthrough innovations. As an example, Europe's Horizon Europe program aims to bring private and/or public partners together to address some of Europe's most pressing challenges through joint research and innovation initiatives. The Innovative Health Initiative (IHI) is embedded within the Horizon program providing funding for projects that will address public health needs, improve patients' lives, and boost the competitiveness of Europe's health industries.

Manufacturing & distribution

The COVID-19 pandemic highlighted the vulnerabilities linked to the separation of R&D and manufacturing processes, and the dependence on foreign imports of intermediate and finished goods. Additionally, it revealed the advantages of local manufacturing, such as faster crisis response due to accessible manufacturing capacity, expertise, and quality assurance capabilities.

Consequently, a trend toward reshoring manufacturing and associated R&D has emerged. Various governments offer grants and incentives to support capital expansion projects which bring additional employment and further diversification of a jurisdiction's industrial activities. Moreover, grants and incentives schemes are increasingly offered to boost the competitiveness of existing manufacturing and warehousing capacity by providing support for investments in the further development and adoption of innovative manufacturing methods and warehouse management systems.

The EU has also introduced the Critical Medicines Act (CAM) in March 2025 which sets out a series of industrial policy measures, supporting strategic projects that aim to create, increase or modernize manufacturing capacity

of critical medicines in Europe. It includes recommendations to support strategic projects through a mix of EU and public funding and state aid.

Sustainability

Governments worldwide have committed to ambitious efforts to combat climate change. Moreover, it has been recognized by some that sustainability should be seen as a fundamental element in building a future-proof business.

Consequently, governments globally are providing grants and incentives to support sustainable actions and innovation. In recent years, new grants and incentives mechanisms have been introduced, such as the US Inflation Reduction Act (IRA) in 2022 (though many of those incentives were reversed or scaled back in the OBBB Act). Following the introduction of the IRA, many other countries have been enhancing their sustainability aid.

Generally, the grants and incentives available worldwide range from support for the implementation of the state-of-the-art green technologies to advanced support for the development and demonstration of innovative green technologies or products, as well as for the set-up of manufacturing capacity.



Role of tax functions in deploying grants and incentives

The LSHC industry is characterized by its R&D-intensive nature. Development of new therapies or medical devices often takes a long time and involves significant spending on research and development. Traditionally, LSHC companies have been tapping into the available grants and incentives schemes available in the geographies where they have an R&D center, allowing them to benefit from government support for their spending across the R&D value chain (i.e., from early

discovery, preclinical development to clinical development). Conversely, LSHC companies are less informed about the availability of grants and incentives schemes supporting later stage development or commercialization activities (i.e., high Technology Readiness Level or TRL), or the deployment of their decarbonization or sustainability

ambitions. Given the priority shift of governments to strengthen the resilience of their regions through reshoring of new manufacturing capacity and enhancing competitiveness of existing domestic capacity, it has become even more valuable for LSHC companies to look into grants and incentives supporting investments across the entire value chain.

As activities such as R&D, manufacturing, sales, and distribution are spread across numerous jurisdictions worldwide, this creates a need for a strategic global overview on the grants and incentives opportunities available in the relevant jurisdictions, combined with local hands-on grants and incentives expertise to drive their application.

Furthermore, access to grants and incentives is typically centered around the locations where economic substance and IP ownership is generated. Historically, the valuation of IP and the pricing of intercompany transactions have, however, been used by organizations to shift profits to lower-tax jurisdictions, highlighting the intricacies involved. Moreover, each country has distinct tax regulations and grants and incentives schemes. Multi-country operations, coupled with dynamic and evolving tax regulations and grants and incentives schemes, create a complex landscape that is challenging to navigate. This complexity has led to multiple tax controversies in recent years.

To comply with international tax regulations while optimizing the use of grants and incentives, a holistic approach is crucial. This involves tax professionals within the LSHC industry aligning with transfer pricing agreements, economic substance, localization of IP, and maintaining compliance with all local legislations. Bringing advisors to the table who can inform tax teams about available grants and incentives schemes and assess opportunities while complying with the constantly shifting (international) tax landscape and state aid regulations has become invaluable.



Importance of grants and incentives in investment decisions

In view of ETR or EBITDA management, companies have been changing the set-up of their investment strategy; the availability of grants and incentives schemes has become an integral aspect being evaluated in an investment decision. Specifically, a key factor of a strong business case is a good Net Present Value (NPV), a financial estimate that is heavily influenced by availability of grants and incentives support. As businesses adapt their investment strategies, the role of tax professionals becomes increasingly integral to the investment decision-making process. This shift underlines the necessity of a cross-business coordinated approach in investment planning.

Maximizing the benefits of grants and incentives requires the set-up of a cross-functional organizational process flow throughout the investment approval process.

Integrating tax teams and (financial) experts into strategic investment decisions helps businesses to fully leverage available opportunities, while assessing potential risks and mitigation strategies.

Bringing advisers to the table to inform which grants and incentives are available to the company and the targeted investments will add value to the business case, increasing the effectiveness of investment decisions and the ROI of strategic investments.

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