OECD issues new R&D incentive report

Executive summary

The Organisation for Economic Cooperation and Development (OECD) has issued a new report which provides an update on some of the available research and development (R&D) tax incentive schemes for OECD countries and selected economies. Specifically, the report contains information on the design, scope and approval processes of R&D tax incentive relief.

The report is based on the results of a 2013 OECD Questionnaire conducted by the OECD Working Party of National Experts on Science and Technology Indicators in spring 2013.

Detailed discussion

Report details

The report provides details for 29 jurisdictions, but indicates that information was not able to be sourced for China, Iceland and Italy, while Luxembourg, New Zealand, Sweden and Switzerland were listed as “N/A.”

It should be noted though, that although two of the four jurisdictions (Luxembourg and Sweden) are listed as not providing R&D incentives, they do provide some form of R&D support1 through mechanisms as varied as cash grants, loans and accelerated depreciation on qualifying R&D assets (Luxembourg) and reduced social security contributions and expatriate-focused benefits (Sweden). Switzerland does not currently incentivize R&D activity, while in New Zealand a 15% tax credit was available for expenditure incurred in relation to eligible R&D activities undertaken during the 2008-9 income year only. New Zealand does maintain various grant funding initiatives to support the development and commercialization of innovative technologies.

For each country, the OECD provides five key areas for each available incentive:

- General attributes
- Incentive design attributes
- Definition of R&D
- Eligible R&D
- Pre-approval/documentation requirements
Identifying trends in the data
Using the available data, the OECD website has been updated to identify key trends and issues in a number of different areas related to R&D incentives. These include:

- Australia, Canada, France, Korea, the Netherlands and Portugal grant more generous treatment to small and medium enterprises (SMEs) than to large firms.
- Some countries allow firms to benefit from tax incentives when they are not profitable enough to use them in the current period through refunds and carry-forward provisions, but few do so to a significant extent.
- In Austria and Norway, refunds by authorities effectively allow firms to benefit from incentives as if they were profitable. Such provisions tend to be more generous for SMEs and younger firms, as in Australia, France and the United Kingdom.
- In 2013, 27 OECD countries gave preferential tax treatment to business R&D expenditures. In 2011, the Russian Federation, Korea, France and Slovenia provided the most combined support for business R&D as a percentage of GDP. R&D tax credits were worth US$8.3 billion in the United States, followed by France and China.
- Over 2006-11, the importance of tax incentives vis-à-vis direct support increased in 11 out of the 23 countries for which complete data is available. Their share of support fell in many countries owing to the crisis-driven decline in business R&D. Mexico and New Zealand abolished their tax incentives but Finland introduced them in 2013. Falling profits at the outset of the economic crisis also reduced firms’ ability to claim incentives.

Implications
As noted in OECD data, R&D incentives continue to evolve at a rapid pace. Many countries are introducing or reforming their R&D incentives; some are making their incentives more generous while others are targeting their funds more closely. Almost without exception, countries are putting in place stricter eligibility requirements, requiring detailed documentation and are enforcing their incentives more rigorously. While the OECD data is an interesting starting point, it is important that companies make a more thorough assessment of the national and supranational incentives (such as the European Commission’s newly-introduced Horizon 2020 program) available to them. As noted, the OECD data does not provide a complete set of data for either OECD member countries or non-OECD countries. In addition, not all available incentives for R&D are described for each country, nor are some of the nuances and insights about how each program may operate. More than the overall design and benefit granted by each individual incentive, the territoriality, intellectual property (IP) location requirements and company funding requirements are also all important considerations for a multinational company to consider when forming their R&D strategy. Finally, the eligibility requirements, application and compliance processes for an individual incentive can be as important as the design and benefit of the incentive itself. In many countries, the application of deep industrial and scientific experience as well as tax technical competency is required to ensure that investments in R&D generate the appropriate benefit levels. Moreover, it should be noted that many countries offer negotiated incentives for large scale capital and workforce investments. Additional information on available R&D incentive programs can be viewed in EY’s 2013-14 Worldwide R&D incentives reference guide.

Endnotes
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