

FISCAL INCENTIVES FOR R&D

Recent years have seen a clear shift from direct public funding for business R&D towards indirect funding. In 2005, direct government funds financed on average 7 percent of business R&D, down from 11 percent in 1995. In 2008, 21 OECD countries offered tax relief for business R&D, up from 12 in 1995, and most have tended to make it more generous over the years (OECD 2008, 80). The appeal of R&D tax credits stems from their non-discriminatory nature in terms of research and technology fields or industrial sectors. According to the OECD (2008) several OECD and non-member economies have recently introduced new tax incentive schemes and made changes in existing schemes to make them more generous. While many tax incentive programmes reward incremental increases in R&D investment, a number of new incentives are based on the level of R&D spending in a given year. Special tax incentives have also been introduced for small and medium-sized enterprises (SMEs). There are concerns, however, that the expansion of R&D tax credits is being driven by growing tax competition as countries seek to enhance their attractiveness for R&D-related foreign direct investment.

Spain currently has the most generous programme for R&D tax incentives, followed by Mexico, France and China. While Mexico, Norway, Portugal and New Zealand have expanded the level of support via R&D tax incentives, other countries spend more on R&D tax incentives in terms of foregone revenue:

from \$800 million in the United Kingdom and France to \$2.2 billion in Canada and \$5.1 billion in the United States in 2005.

A number of OECD countries do not have R&D tax credits but nevertheless try to encourage business R&D investment or to attract foreign R&D through the general fiscal framework. In Switzerland, the 26 cantons have their own tax policies and may use them to attract national and foreign R&D. Germany, Finland, Iceland and Sweden also do not have R&D tax incentives but some of these countries have a growing interest in using these to meet certain science and technology policy goals such as stimulating R&D in SMEs or fostering co-operation between public research and industry. Again, some of the growing interest in R&D tax credits may also reflect concerns about tax competition between countries.

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References

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Figure

