R&D Tax Incentives: Spain

1. Public support for business R&D: the mix of direct funding and tax relief

Governments in many countries seek to promote R&D investment in the economy by granting a preferential tax treatment to eligible R&D expenditures, especially those incurred by firms. In 2016, 29 of the 35 OECD countries, 22 of 28 EU countries and a number of non-OECD economies offer R&D tax incentives.

Figure 1. Direct government funding of business R&D and tax incentives for R&D, 2014 (nearest year)
As a percentage of GDP

Main points:
- Spain is positioned close to the OECD median in terms of the total volume of (central) government support for business R&D, equivalent to 0.09% of GDP.
- Tax incentives account for 33% of total public support for business R&D in Spain.
- From 2006 to 2014, R&D tax support as a percentage of GDP remained unchanged in Spain, while the OECD median increased by 0.02 percentage points.

2. Trends in government support for business R&D

Over the last decade, several OECD countries have increased their reliance on R&D tax incentives. However, this trend has not been uniform. The relative importance of tax incentives declined briefly following the global financial crisis, reflecting the demand-led nature of tax relief and its dependence on profits.

Figure 2. Direct funding of business R&D and tax incentives for R&D, Spain, 2000-14
As a percentage of GDP, 2010 prices (right-hand scale)

Main points:
- In Spain, the volume of R&D tax support increased from 2002 to 2005, declined thereafter, especially after the 2008-2009 crisis, to revert back from 2011 onwards and reach EUR 323 million in 2014.
- As percentage of GDP, tax support oscillated around 0.03% of GDP over the 2002-14 period, showing a moderate but steady increase since 2011.
- Direct funding of BERD reached its peak in 2008 (0.13% of GDP) and reverted back to 0.06% in 2014.

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3. Design of R&D tax incentive support

Countries differ in the extent to which they rely on tax measures to support R&D, and those that do design tax relief measures in substantially different ways. Key design features relate to the type of tax instrument, eligible R&D costs, provisions for firms with insufficient tax liability, ceilings and thresholds among others.

Table 1. Main design features of R&D tax incentives

<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>Eligible expenditures</th>
<th>Tax incentives*</th>
<th>Social security exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hybrid (volume-based and incremental)</td>
<td>Current, Machinery &amp; Equipment (ME), Intangibles</td>
<td>Tax credit</td>
<td>SSC exemption</td>
</tr>
<tr>
<td>Volume:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C: 25, +17 (R&amp;D staff); ME &amp; Intangibles: E</td>
<td>Increment: C: 42</td>
<td>Social security exemption</td>
<td>Labour</td>
</tr>
<tr>
<td>Refund</td>
<td>Immediate (optional at 20% discount)</td>
<td></td>
<td>Redeemable against payroll-related taxes</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>18 (carry-forward)</td>
<td></td>
<td>n.a.</td>
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<tr>
<td>Ceilings</td>
<td>R&amp;D tax relief</td>
<td>25% of gross tax liability if R&amp;D tax relief equals or is less than 10% of the tax due; else the cap is increased to 50% of the gross tax due</td>
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<td>Refund-specific</td>
<td>EUR 3 million, raised to EUR 5 million when the sum of R&amp;D and technological innovation related expenses for companies with expenditure in R&amp;D exceeds 10% of their turnover</td>
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</tbody>
</table>

*: Except for innovative SMEs, the R&D tax credit and SSC exemption are partially mutually exclusive in their use. SSC: Social Security Contributions.

For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief


Main points:
- Spain provides R&D tax relief through a hybrid R&D tax credit and a SSC exemption for qualified research staff. Both incentives are partially mutually exclusive in their use (except for innovative SMEs): researcher expenditures claimed under one scheme are not eligible for the other.
- In case of insufficient income tax liability, unused tax credits can be carried-forward for 18 years or can alternatively be refunded at a 20% discount.
- Ceilings apply on refunded credits and the amount of R&D tax relief for firms in any profit situation.

4. Generosity of R&D tax support

The design of R&D tax incentives influences the "expected" generosity of tax relief per additional unit of R&D investment. Across OECD and partner economies providing tax relief, there is a significant variation in tax subsidy rates for firms of different size and profitability.

Figure 3. Implied tax subsidy rates on R&D expenditures, 2016

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


Main points:
- In Spain, the marginal R&D tax subsidy rate for SMEs is estimated at 0.36 (0.29) in the profit (loss-making) scenario; notably above the OECD median of 0.18 (0.11) for profitable (loss-making) SMEs.
- The tax subsidy rate for profitable (loss-making) large enterprises in Spain is 0.36 (0.29); much larger than the OECD median of 0.11 (0.09) for profitable (loss-making) large enterprises.