R&D Tax Incentives: Belgium, 2018

Design features

Belgium provides R&D tax relief through a payroll withholding tax (PWHT) exemption, an R&D tax credit and R&D tax allowance. The latter two cannot be claimed simultaneously.

- In case of insufficient income tax liability, the R&D tax allowance scheme allows for an indefinite carry-forward of unused claims. In the case of the R&D tax credit, unused claims are carried forward over 4 years and the part not used is refunded after 5 years.
- The PWHT credit, while limited to the payroll tax liability of the corresponding tax period, is disconnected from the corporate tax liability of the firm.

Table 1. Main design features of R&D tax incentives in Belgium, 2018

<table>
<thead>
<tr>
<th>Tax incentive*</th>
<th>Tax credit**</th>
<th>Tax allowance</th>
<th>PWHT exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of instrument</td>
<td>Volume-based</td>
<td>Volume-based</td>
<td>Volume-based</td>
</tr>
<tr>
<td>Eligible expenditures†</td>
<td>Machinery and equipment, buildings</td>
<td>Labour</td>
<td></td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>3.99 (6.065****)</td>
<td>13.5**** (20.5****)</td>
<td>80 (40 if bachelor degree with effect of January 2018)</td>
</tr>
<tr>
<td>Refund</td>
<td>5 years</td>
<td>No</td>
<td>Redeemable against payroll/related taxes</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>4 (carry-forward)</td>
<td>Indefinite (carry-forward)</td>
<td>n.a.</td>
</tr>
<tr>
<td>Ceilings</td>
<td>R&amp;D tax relief</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

M&E: Machinery and Equipment; PWHT: Payroll withholding tax; SSC: Social Security contributions; TA: Tax allowance; TC: Tax credit; * Belgium also offers an accelerated depreciation for R&D capital; ** Granted for investments in patents and environmentally friendly R&D investments; *** Spread deduction over five years (i.e. 1.21 per year); **** Spread deduction over five years (i.e. 4.1 per year). For SMEs, the normal investment deduction is temporarily raised from 8% to 20% for investment made between 1 January 2018 and 31 December 2019. The normal investment deduction rate of 20% applies when it is more interesting for taxpayers. Belgium also provides an income-based tax incentive (deduction for innovation and patent income) for outcomes of R&D activities. These are beyond the scope of this note.


Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Belgium is estimated at 0.16 (0.15), smaller than the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.16 (0.15) in the profit (loss)-making scenario, larger than the OECD median of 0.13 (0.10). These estimates focus on modelling provisions of the R&D tax credit, PWHT exemption and accelerated depreciation of R&D capital.

Looking at each of the four scenarios considered, the generosity of R&D tax incentives has increased steadily in Belgium over the 2000-18 period. The implied R&D tax subsidy rate for profitable SMEs and large firms rose from 0.10 in 2007, when the PWHT credit was introduced, to 0.16 in 2018. In the case of loss-making firms, the tax subsidy rate per unit of R&D outlay similarly increased from 0.09 in 2007 to 0.15 in 2018. The stepwise increases implied R&D tax subsidy rates, observable in the years 2008, 2009 and 2013, are linked to an increase in the rate of the PWHT credit from initially 50% to 65%, 75% and 80% respectively.

Figure 1. Implied tax subsidy rates on R&D expenditures: Belgium, 2000-18

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


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/rd/tax-state-baseline-methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sit/rd/tax-state-baseline-notes.pdf

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Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year) As a percentage of GDP

- **Belgium** ranks third among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.40% of GDP in 2016.
- From 2006 to 2016, total government support for BERD as a percentage of GDP increased in Belgium by 0.30 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in Belgium increased from 1.26% to 1.78%.
- In 2016, R&D tax incentives accounted for 75% of total government support for BERD in Belgium.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

Figure 3. Direct funding of business R&D and tax incentives for R&D, Belgium, 2000-16 As a percentage of GDP, 2010 prices (right-hand scale)

- Since the introduction of R&D tax support in 2005, the importance of R&D tax incentives has increased significantly in Belgium, both in absolute and relative terms.
- As percentage of GDP, R&D tax support amounted to approximately 0.30% of GDP in 2016.
- Direct funding of BERD also increased over the 2007-16 period – from 0.07% to 0.10% of GDP.
- The share of R&D tax incentives in total government support increased over this period, from 41% in 2007 to 75% in 2016.