R&D Tax Incentives: Brazil, 2018

Design features

Brazil offers R&D tax incentives in the form of a volume-based R&D tax allowance.

- The R&D tax allowance rate varies between 60% (base) and 100%.
- In case of insufficient tax liability, unused claims are neither refundable nor can be carried-forward.

<table>
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<tr>
<th>Table 1. Main design features of R&amp;D tax incentives in Brazil, 2018†</th>
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<td><strong>R&amp;D Tax Allowance</strong></td>
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<td><strong>Tax incentive</strong></td>
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<tr>
<td><strong>Type of instrument</strong></td>
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<td><strong>Eligible expenditures</strong>†</td>
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<td><strong>Headline rates (%)</strong></td>
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<td><strong>Refund</strong></td>
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<td><strong>Carry-over (years)</strong></td>
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| **Volume-based**                                             |
| **Current**                                                  |
| **60-70-80-100****                                            |
| **No**                                                       |
| **No**                                                       |

* Brazil also offers an accelerated depreciation for R&D capital. **: The base deduction is 60. An enhanced rate of relief of 70% applies if the headcount of researchers increases by up to 5% in a given year, and of 80% if the increase in headcount is larger than 5%. Employees who relocated internally to work exclusively in research projects may also be considered in the increase of the number of researchers. An extra 20% deduction is allowed for the qualifying costs incurred in developing a patent or cultivar, but the super deduction is only allowed when a patent/cultivar is registered.

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 Brazil is estimated at 0.27 (-0.01), larger (well below) the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.27 (-0.01) in the profit (loss)-making scenario, much larger (well below) the OECD median of 0.13 (0.10). These estimates model the provisions of the R&D tax allowance and the accelerated depreciation of R&D capital.

Looking at each of the four scenarios considered, the generosity of R&D tax incentives has remained unchanged in Brazil since the introduction of an R&D tax incentive in 2006. When an R&D tax allowance is in place, the value of the tax deduction is linked to the corporate income tax (CIT) rate. With the CIT rate for large enterprise and SMEs coinciding (34% in 2018), the implied subsidy rate of SMEs matches the one of large firms in the profit-making scenario. Without any carry-over or refund option in place, the implied tax subsidy rate estimated for SMEs and large firms effectively drops to zero in the loss-making scenario.

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


Figure 1. Implied tax subsidy rates on R&D expenditures: Brazil, 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/sti/rd-tax-also-investment-innovations/methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-also-investment-innovations/note.pdf.

1 Disclaimer: http://oe.cd/disclaimer
2 SMEs in Brazil may opt to use a special simplified tax scheme (SIMPLES) which entails a significant reduction of CIT rates. This scheme cannot be combined with the enhanced R&D tax allowance. Most SMEs opt for this scheme instead of the R&D tax allowance.
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

- **Brazil** is positioned close to the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.11% of GDP in 2016.
- From 2006 to 2016, total government support for BERD as a percentage of GDP increased by 0.07 percentage points in Brazil, while the OECD median (2006-2016) increased by 0.02 percentage points.
- During this period, business R&D intensity in Brazil increased from 0.42% to 0.54%.
- In 2016, R&D tax incentives accounted for 26% of total government support for BERD in Brazil.

**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, Brazil, 2000-15**

As a percentage of GDP, 2010 prices (right-hand scale)

- Since the introduction of an R&D tax allowance in 2006, the importance of tax relief has increased in Brazil, with some down- and upturns observable following the onset of the global financial crisis.
- The cost of R&D tax support rose (in 2010 prices) from BRL 305 million (1 BRL = 0.26 USD, 31.12.2018) in 2006 to BRL 1 147 million in 2016, with a peak of BRL 2 238 million in 2010.
- As percentage of GDP, tax support increased from 0.01% of GDP in 2006 to 0.03% of GDP in 2016.
- Direct funding of BERD fluctuated over the 2000-16 period, increasing from 0.04% of GDP in 2000 to 0.10% of GDP in 2008 to decline and revert back to 0.08% of GDP in 2016.
- The share of R&D tax incentives in total government funding varied over the 2006-16 period and rose from 22% in 2006 to 26% in 2016.