**R&D Tax Incentives: Chile, 2018**

### Design features

Chile provides R&D tax relief through a volume-based R&D tax credit.

- When introduced in 2008, it covered only extramural R&D expenditures (Law 20.241). In September 2012, the scope of the tax credit was extended (Law 20.570) to cover in-house (intramural) R&D.
- In case of insufficient tax liability, unused credits can be carried-forward indefinitely.
- A ceiling of 15,000 Monthly Tax Units (UTM) applies to eligible R&D volumes; a floor (minimum R&D expenditure threshold) of 100 UTM determines the project’s eligibility for R&D tax support.

### Table 1. Main design features of R&D tax incentives in Chile, 2018*

<table>
<thead>
<tr>
<th>Tax incentive*</th>
<th>Type of instrument</th>
<th>Eligible expenditures†</th>
<th>Headline rates (%)</th>
<th>Refund</th>
<th>Carry-over (years)</th>
<th>Thresholds &amp; ceilings</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D tax credit</td>
<td>Volume-based</td>
<td>Current and depreciation (machinery and equipment, buildings)</td>
<td>26.25** (35 gross)</td>
<td>No</td>
<td>Indefinite carry-forward</td>
<td>Ceiling (R&amp;D expenditure) 100 UTM** 15,000 UTM***</td>
</tr>
</tbody>
</table>

* Chile also offers an accelerated depreciation for R&D capital; ** A baseline tax allowance of 100 is taken as a benchmark for current expenditures (Chile allows for a 65% tax allowance aside the tax credit); *** UTM: Monthly tax unit; 1 UTM ~ USD 73 (1 CLP = 0.0014 USD, 31.12.2018).

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**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 Chile is estimated at 0.34 (0.27), well above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.34 (0.27) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.13 (0.10). These estimates model the provisions of the R&D tax credit and the accelerated depreciation of R&D capital.

Following the introduction of R&D tax support in 2008, the generosity of R&D tax incentives in Chile increased significantly with the extension of the scope of R&D tax support to cover intramural R&D with effect from September 2012. In 2013, the first year in which the new tax credit is modelled, the implied R&D tax subsidy rate for SMEs (large firms) increases from 0.03 (0.05) to 0.35 in the profit-making scenario. In the loss-making case, the R&D tax subsidy rate for SMEs (large firms) rises from 0.02 (0.04) to 0.28 in 2013.

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

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

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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-state-bindex-methodology.pdf](http://www.oecd.org/sti/rd-tax-state-bindex-methodology.pdf) and for notes regarding the modelling of the country-specific time series, see [http://www.oecd.org/sti/rd-tax-state-bindex-centres.pdf](http://www.oecd.org/sti/rd-tax-state-bindex-centres.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

- Chile is placed among the lower tier of OECD and partner economies in terms of total government support for business R&D, equivalent to 0.03% of GDP.
- From 2007 to 2016, total government support for BERD as a percentage of GDP increased in Chile by 0.02 percentage points. This increase is identical to the one observed at the OECD median (2006-16).
- During this period, business R&D intensity in Chile increased from 0.11% to 0.14%.
- In 2016, R&D tax incentives accounted for 39% of total government support for BERD in Chile.

**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, Chile, 2007-16**

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

- Since the introduction of R&D tax support in 2008, the importance of R&D tax relief has increased in Chile both in absolute and relative terms, with a decline notable in the most recent year.
- The cost of tax support rose (in 2010 prices) from CLP 38 million in 2008 to CLP 14395 million in 2016, with a notable increase following the extension of the tax credit to cover intramural R&D in 2013. The year 2016 in turn witnessed an unprecedented high number of firms applying for the credit.
- As percentage of GDP, the amount of tax support increased steadily to reach 0.01% of GDP in 2016.
- Direct funding of BERD increased, from 0.002% of GDP to 0.016% of GDP over the 2007-16 period.
- The share of tax incentives in total government support rose from 1% in 2008 to 39% in 2016.

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A break in the BERD time series is recorded for 2009 and 2013.