R&D Tax Incentives: Colombia, 2018

Design features

Colombia provides R&D tax relief through a volume-based R&D tax credit for investment or donations in research and technology development, which replaced the previously existing volume-based R&D tax allowance in 2017.

- The headline rate of relief is 25%.
- In the case of insufficient tax liability, unused credits can be carried-forward 4 years.
- The R&D tax credit is limited to 25% of businesses’ corporate tax liability.

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

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>R&amp;D tax credit</th>
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</thead>
<tbody>
<tr>
<td>Type of instrument</td>
<td>Volume-based</td>
</tr>
<tr>
<td>Eligible expenditures†</td>
<td>Current and depreciation (machinery and equipment, buildings)</td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>25</td>
</tr>
<tr>
<td>Refund</td>
<td>No</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>4 (carry-forward)</td>
</tr>
<tr>
<td>Ceilings</td>
<td></td>
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<tr>
<td>R&amp;D tax relief</td>
<td>25% of corporate income tax liability</td>
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</tbody>
</table>

† The R&D definition applicable for tax purposes conforms to the OECD Frascati Manual definition of R&D. Innovation related expenditure are also eligible under the R&D tax credit regime in Colombia. The cost estimates reported in this note refer explicitly to the R&D component of the tax credit scheme.

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

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 Colombia is estimated at 0.34 (0.25), well above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to the one for SMEs 0.34 (0.25) in the profit (loss)-making scenario and significantly larger than the OECD median of 0.13 (0.10).

The generosity of R&D tax support has increased in Colombia over the 2000-18 period, as measured by the implied R&D tax subsidy rate for SMEs and large firms in the profit and loss-making scenario. A marked increase in noticeable in 2011, when the rate of the existing, volume-based R&D tax allowance was raised from 25% to 75%. The interim decline of R&D tax subsidy rates during the years 2013-15 is attributable to the reduction of the corporate income tax rate from 33% to 25% in 2013, the magnitude of which directly affects the value of tax deductions. With the introduction of a volume-based R&D tax credit in 2017, replacing the previous R&D tax allowance scheme, implied R&D tax subsidy rates increased for both profitable and loss-making firms. Firms in a loss-making position effectively lost their tax benefits throughout the 2000-09 period, when there was no refund or carry-over option in Colombia. With an indefinite carry-over option in place from 2010 to 2016, reduced to four years in 2017, the R&D tax subsidy rates estimated for loss-making firms are positive but smaller than those for profitable companies during the 2010-18 period.

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

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


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


- **Colombia** is placed among the lower tier of OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.024% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP increased in Colombia by 0.02 percentage points. This change is identical to the one observed at the OECD media.
- During this period, business R&D intensity in Colombia increased from 0.03% to 0.13%.
- In 2016, R&D tax incentives accounted for 89% of total government support for BERD in Colombia.

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.

**Source:** OECD, R&D Tax Incentive Database, [http://oe.cd/rdtax](http://oe.cd/rdtax), March 2019.

- Between 2006 and 2016 (the period for which relevant data are available), the importance of R&D tax incentives has increased in Colombia, both in absolute and relative terms, with some upward trend observable from 2011 onwards, interrupted by some downturns in 2013 and 2016.
- The cost of tax relief rose (in 2010 prices) from COP 37 609 million (1 COP = 0.0003 USD, 31.12.2018) in 2006, reached its peak in 2012 (COP 231 552 million) following the increase of the tax allowance rate from 25% to 75% in 2011, and declined thereafter to reach COP 151 424 in 2016. The years 2013 and 2016 witnessed a significant drop in the value of R&D tax support, attributable to the reduced rate of R&D project registrations and the increased registration of innovation vs. R&D projects respectively.1
- As a percentage of GDP, R&D tax support accounted for 0.008% of GDP in 2006, 0.038% in 2012, dropping to 0.022% in 2016. Direct funding of BERD rose from 0.0004% in 2006 to 0.0026% of GDP in 2016, with a peak value in 2009 (0.016%) when the R&D funding agency Coelacías was transformed into a national department and temporarily had more funds at its disposal.
- The share of R&D tax incentives in total government support fluctuated substantially during these years, amounting to 95% in 2006, 16% in 2009, 100% in 2011 and 2012, dropping to 89% in 2016.

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1 Under the tax allowance scheme in Colombia (converted into a credit in 2017), firms can apply, by registering R&D and innovation projects. In 2013, the scope of tax support was narrowed and innovation projects were temporarily excluded from the tax deduction.


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