R&D Tax Incentives: Czech Republic, 2018

Design features

The Czech Republic provides R&D tax relief through a hybrid R&D tax allowance.

- In case of insufficient tax liability, unused credits can be carried-forward for three years.
- The base amount above which R&D expenditure qualify for the incremental tax credit is defined as amount of qualifying R&D expenditures in the previous year.
- No upper ceiling applies on the amount of qualifying R&D expenditure or value of R&D tax relief.

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

<table>
<thead>
<tr>
<th>Design feature</th>
<th>R&amp;D tax allowance</th>
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<tbody>
<tr>
<td><strong>Type of instrument</strong></td>
<td>Hybrid (volume-based and incremental)</td>
</tr>
<tr>
<td><strong>Eligible expenditures</strong>†</td>
<td>Current* and depreciation of movable fixed assets</td>
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<tr>
<td><strong>Headline rates (%)</strong></td>
<td>Volume: 100 Increment: 10</td>
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<td><strong>Refund</strong></td>
<td>No</td>
</tr>
<tr>
<td><strong>Carry-over (years)</strong></td>
<td>3 (carry-forward)</td>
</tr>
<tr>
<td><strong>Base amount</strong></td>
<td>Qualifying R&amp;D expenditure in the previous year</td>
</tr>
<tr>
<td><strong>Ceilings</strong></td>
<td>R&amp;D expenditure or R&amp;D tax relief</td>
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†Effective January 2014, qualifying expenses have been expanded to include external services related to R&D provided by public R&D institutions such as universities and research institutes.

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-maiking) SMEs in Czech Republic is estimated at 0.21 (0.15), close to (below) the OECD median of 0.20 (0.17). The tax subsidy rate for large firms is equal to 0.21 (0.15) in the profit (loss)-making scenario, well above the OECD median of 0.13 (0.10).

Since the introduction of R&D tax support in the Czech Republic in 2005, implied marginal R&D tax subsidy rates (in each of the four scenarios considered) have declined over time with a slight upturn in more recent years. In 2005, the tax subsidy rate for profitable (loss-making) SMEs and large firms was equal to 0.30 (0.21) and reached 0.20 (0.15) in 2010. This decline is mainly attributable to the step-wise reduction in the corporate income tax rate between 2005 and 2010, the magnitude of which directly affects the value of tax deductions. A slight increase in implied tax subsidy rates is observable for profit-making firms in 2014, when the R&D tax allowance was extended to incorporate an incremental component and to cover machinery and equipment depreciation as eligible expenses.

Figure 1. Implied tax subsidy rates on R&D expenditures: Czech Republic, 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-state-basics-methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-states-basics-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

- The Czech Republic is placed 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 in the Czech Republic declined by 0.03 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in the Czech Republic increased from 0.72% to 1.03%.
- In 2016, tax incentives accounted for 44% of government support for BERD in the Czech Republic.

**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, Czech Republic, 2000-16**
As a percentage of GDP, 2010 prices (right-hand scale)

- Since the introduction of an R&D tax allowance in 2005, the importance of R&D tax incentives has increased significantly in the Czech Republic, both in absolute and relative terms.
- In the Czech Republic, the cost of R&D tax relief rose (in 2010 prices) from CZK 925 million in 2005 to CZK 2212 million in 2016 (1 CZK= 0.044 USD, 31.12.2018).
- As percentage of GDP, R&D tax support increased from 0.03% to 0.05% of GDP during this period.
- Direct funding of BERD increased from 2005 to 2011 but then declined to reach 0.05% of GDP in 2016. Total government support for BERD in 2016 (0.11%) thus falls short of its 2005 level (0.13%).
- The share of R&D tax incentives in total government support doubled over the 2005-16 period, amounting to 20% in 2005 and 44% in 2016.


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