R&D Tax Incentives: Iceland, 2018

Design features

Iceland provides R&D tax relief in 2018 through a volume-based, payable (refundable) R&D tax credit with a headline relief of 20%.

- In the case of insufficient tax liability, firms are entitled to an immediate refund of unused credits.
- A lower ceiling (floor) of ISK 1 million applies to R&D projects and an upper ceiling of ISK 300 million applies to qualifying R&D expenditures. This cap is raised to ISK 450 million in the case of purchased or collaborative R&D (1 ISK = 0.0086 USD, 31.12.2018).

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<tr>
<th>Type of instrument</th>
<th>R&amp;D tax credit</th>
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<tbody>
<tr>
<td>Volume-based</td>
<td>Current, capital</td>
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<tr>
<th>Eligible expenditures†</th>
<th>Floor (R&amp;D expenditure)</th>
<th>Ceiling (R&amp;D expenditure)</th>
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<tbody>
<tr>
<td>Current, capital</td>
<td>ISK 1 million per project</td>
<td>ISK 300 million (ISK 450 million for subcontracted/collaborative R&amp;D)</td>
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<tr>
<th>Headline rates (%)</th>
<th>Refund</th>
<th>Carry-over (years)</th>
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<tbody>
<tr>
<td>20</td>
<td>Immediate</td>
<td>No</td>
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<tr>
<th>Thresholds &amp; ceilings</th>
<th>Floor (R&amp;D expenditure)</th>
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<tr>
<td>ISK 1 million per project</td>
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† 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. Since the introduction of a refundable R&D tax credit in 2010 (R&D expenditures are eligible from fiscal year 2011 onwards), the generosity of R&D tax incentives has remained unchanged in Iceland. Due to the refundable nature of the tax credit, marginal tax subsidy rates for SMEs and large firms do not vary by profit scenario.

In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Iceland is estimated at 0.24 (0.24), above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.24 (0.24) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.13 (0.10).

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

- Iceland ranks seventeenth among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.17% of GDP in 2014.
- From 2006 to 2014, total government support for BERD as a percentage of GDP increased in Iceland by 0.10 percentage points, while the OECD median (2006-2016) increased by 0.02 percentage points.
- During this period, business R&D intensity in Iceland declined from 1.54% to 1.22%.
- In 2014, R&D tax incentives accounted for 35% of total government support for BERD in Iceland.

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, Iceland, 2000-14
As a percentage of GDP, 2010 prices (right-hand scale)

- Since the introduction of R&D tax support in 2011, the importance of R&D tax incentives has remained fairly stable in Iceland, both in absolute and relative terms.
- As percentage of GDP, R&D tax support remained unchanged at 0.06% of GDP over this period.
- Direct funding of BERD increased from 0.10% to 0.11% of GDP between 2011 and 2014.
- The share of tax incentives in total government support dropped from 37% in 2011 to 35% in 2014.
