R&D Tax Incentives: Italy, 2019

Design features

Italy provides R&D tax relief through an incremental R&D tax credit which was introduced in 2015 as part of a reform of the R&D tax incentive and that has been reinforced in 2017. In 2019, the headline rate has been reduced from 50% back to 25%.

- Companies may offset earned credits against regional taxes and social security contributions, instead of their income tax liability, and carry forward any excess claims.
- The ceiling on R&D tax benefits increased from EUR 5 million in 2016 to EUR 20 million in 2017, and has been lowered to EUR 10 million in 2019.
- In order to qualify for R&D tax relief, firms must incur qualifying expenditures of at least EUR 30 000.

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<th>Table 1. Main design features of R&amp;D tax incentives in Italy, 2019†</th>
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<td><strong>R&amp;D tax credit (Legge di Stabilità 2015, 2017)</strong>-----------</td>
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Italy also offers an income-based tax incentive for outcomes of R&D activities. These are beyond the scope of this note. **This rate is raised to 50% for: (i) expenses incurred with respect to R&D contracts signed with universities, and research organizations as well as with independent innovative start-ups and Small and Medium Enterprises (SMEs); and (ii) expenses for employees directly hired to carry out R&D activities.

† 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 significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2019, the R&D tax subsidy rate for SMEs and large firms in Italy is estimated at 0.04 in both profitability scenarios. This subsidy rate is well below the OECD median for SMEs in profit (loss) estimated at 0.19 (0.17) and for large firms in profit (loss) estimated at 0.14 (0.10).

The generosity of R&D tax incentives varied significantly in Italy over the 2000-19 period across the four scenarios considered. An increase in implied marginal tax subsidy rates is observable in 2007 when Italy introduced a volume-based R&D tax credit (Law 296/2006) for intramural R&D. With no refund or carry-over option, the implied tax subsidy rates of loss-making firms reflect the status of no tax support. The marked decline in implied tax subsidy rates in 2010, followed by an upturn in 2015, relate to the abolition of the volume-based tax credit in 2009 and the introduction of a refundable, incremental R&D tax credit for intra- and extramural R&D in 2015. The introduction of a uniform tax credit rate of 50% for all types of eligible R&D expenditure in 2017 and its revocation in 2019, explain the increase in implied subsidy rates from the 2016 level in 2017 and their subsequent reversal to 2016 levels in 2019.

![Figure 1. Implied tax subsidy rates on R&D expenditures: Italy, 2000-19](http://oe.cd/rdtax)


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country, specific notes) 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.

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† Disclaimer: http://oe.cd/disclaimer

2 The R&D tax credit (Law 296/2006) was extended from 2009 to 2011 but was only available to firms that had incurred R&D expenditure in 2007-09 and not yet received tax support.
Public support for business R&D: the policy mix

Italy is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.19% of GDP in 2017.

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)**
As a percentage of GDP

From 2006 to 2017, government support for BERD as a percentage of GDP increased in Italy by 0.14 pp, while the OECD median increased by 0.015 pp.

During this period, business R&D intensity in Italy increased from 0.53% to 0.83%.

In 2017, R&D tax incentives accounted for 85% of total government support for BERD in Italy.

Trends in government support for business R&D

From 2000 to 2017, the importance of R&D tax incentives has increased in Italy, both in absolute and relative terms, with some significant fluctuations being noticeable over the 2006-17 period. Since 2006, Italy implemented various, temporary R&D credits.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, Italy, 2000-17**
As a percentage of GDP, 2010 prices (right-hand scale)

- The cost of R&D tax relief rose (in 2010 prices) from EUR 17 million in 2000 to EUR 324 million in 2007 and dropped in 2010 with the expiry of the volume-based R&D tax credit (Law 296/2006). Following the increasing uptake of the incremental R&D tax credit, introduced as part of a reform of the R&D tax incentive system in 2015 (Legge di Stabilità 2015), the cost of this support reached EUR 1,317 million in 2016. In 2017, the cost of R&D tax support further increased to EUR 2,531 million.
- As a percentage of GDP, R&D tax support represented 0.001% of GDP in 2000 and 0.16% in 2017.
- Direct funding of BERD oscillated between 0.03% and 0.07% of GDP during this period, accounting for 0.03% of GDP in 2017.
- The share of R&D tax incentives in total government support increased from 2% in 2000 to 33% in 2007 and reached 85% in 2017.
