R&D Tax Incentives: Lithuania, 2018

Design features

Lithuania provides tax relief through a 200% allowance on the volume of eligible R&D expenditure.

- In the case of insufficient tax liability, unused claims can be carried-forward indefinitely.
- No threshold or ceiling restricts the amount of eligible R&D expenditures or value of R&D tax relief.

<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>Volume-based</th>
<th>Eligible expenditures</th>
<th>Current</th>
<th>Headline rates</th>
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</thead>
<tbody>
<tr>
<td>R&amp;D tax allowance</td>
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<tr>
<td>Refund</td>
<td>No</td>
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<td>Carry-over (years)</td>
<td>Indefinite (carry-forward)</td>
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<tr>
<td>Thresholds &amp; ceilings</td>
<td>No</td>
<td></td>
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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 Lithuania is estimated at 0.31 (0.25), well above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.31 (0.25) 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 allowance and the accelerated depreciation for R&D capital.

Since the introduction of an R&D tax allowance in 2008, the generosity of R&D tax incentives has effectively remained unchanged in Lithuania, with the exception of a temporary increase in 2009. In this year, the corporate income tax rate was temporarily lifted from 15% to 20%. Since the value of tax deductions are directly linked to the corporate income tax (CIT) rate, this led to a short-term increase in the implied marginal R&D tax subsidy rates estimated for SMEs and large firms in both profit scenarios.

Figure 1. Implied tax subsidy rates on R&D expenditures: Lithuania, 2000-2018

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-stats-bindex-methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-stats-bindex-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

- Lithuania 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 0.03% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP increased in Lithuania by 0.02 percentage points. This increase is identical to the one observed at the OECD median.
- During this period, business R&D intensity in Lithuania increased from 0.22% to 0.29%.
- In 2016, R&D tax incentives accounted for 85% of total government support for BERD in Lithuania.

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, Lithuania, 2000-16

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

- Since the introduction of an R&D tax allowance in 2008, the importance of R&D tax incentives has increased in Lithuania, both in absolute and relative terms.
- As percentage of GDP, tax support increased from 0.005% to 0.025% of GDP during 2008-16.
- Direct funding of BERD oscillated between 0.004% and 0.01% of GDP during the same years, amounting to 0.004% of GDP in 2016.
- The share of tax incentives in total government support increased from 51% in 2008 to 85% in 2016.