R&D Tax Incentives: Netherlands, 2018

Design features

The Netherlands provide R&D tax relief through a payroll withholding tax credit (WBSO) - the result of the 2016 merger of the former payroll withholding tax credit for R&D wage cost (WBSO) and the R&D tax allowance for non-labour related R&D expenses (RDA).

- The headline credit rate of 32% is set to 14% if the amount of eligible R&D costs surpasses a EUR 350 000 threshold (1 EUR = 1.14 USD, 31.12. 2018).
- Tax benefits are administered entirely through the payroll tax system, and are thus disconnected from the corporate tax liability of the firm.

Table 1. Main design features of R&D tax incentives in Netherlands, 2018

| Type of instrument | Payroll withholding tax credit
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<tbody>
<tr>
<td>Eligible expenditures</td>
<td>Labour, machinery &amp; equipment, intangibles, buildings (R&amp;D wage costs plus either the actual costs and expenses or lump sum)</td>
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<tr>
<td>Headline rates</td>
<td>32% (for eligible R&amp;D costs up to EUR 350 000), 14 above EUR 350 000</td>
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<tr>
<td>Refund</td>
<td>Redeemable against payroll withholding tax</td>
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Threshold & ceilings

- Threshold R&D expenditure of EUR 350 000
- R&D tax relief
- R&D expenditure of EUR 350 000
- Payroll tax liability

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 the Netherlands is estimated at 0.31 (0.30), well above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.13 (0.19) in the profit (loss)-making scenario, equal to (above) the OECD median of 0.13 (0.10).

The generosity of R&D tax incentives in the Netherlands has remained fairly stable over the 2000-18 period, with increases noticeable in 2009-11, when the WBSO tax credit rates were raised as a temporary measure. Headline rates for SMEs (R&D below expenditure threshold) and large enterprises (R&D above expenditure threshold) were lifted from 14% to 18% and 42% to 50% respectively. The introduction of an R&D tax allowance for non-labour related R&D expenditure in 2012, accompanied by a reduction of WBSO headline rates, caused R&D tax credit rates to revert back to pre-2009 values. With the subsequent reduction of the WBSO rate for SMEs in 2013 and 2014, the gap in the tax subsidy rates estimated for SMEs and large firms further narrowed. In 2016, the WBSO and RDA scheme were merged. Under the new WBSO scheme – broader in scope but offered at slightly reduced headline tax credit rates – large firms continued to benefit from a similar rate of R&D tax subsidy at the margin. For SMEs, the merged scheme implied a more generous treatment of non-labour related costs, leading to an increase in the R&D tax subsidy rate estimated for SMEs in 2016. In 2018, the headline rate for large enterprises (R&D above expenditure threshold) was reduced from 16% to 14%, leading to a reduction in the implied R&D tax subsidy rate estimated for these firms. Due to refundable nature of the WBSO scheme, the tax subsidy rates for profitable and loss-making firms coincide except for the period when the RDA scheme was in place as a separate tax relief measure.

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


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 expenditures as well as the value of tax relief. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/sti/rd-tax-stateindex-methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/rd-tax-stateindex-note.pdf.
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

![Graph showing direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)](image)


- **Netherlands** is placed above the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.19% of GDP in 2016.
- From 2011 to 2016, government support for BERD as a percentage of GDP increased in the **Netherlands** by 0.01 percentage points, while the OECD median (2006-16) increased by 0.02 percentage points.
- From 2011 to 2016, business R&D intensity in the **Netherlands** increased from 1.06% to 1.16%.
- In 2016, tax incentives accounted for 90% of total government support for BERD in the **Netherlands**.

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, Netherlands, 2000-16**

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

![Graph showing direct funding of business R&D and tax incentives for R&D, Netherlands, 2000-16](image)


- Between 2000 and 2016, the importance of R&D tax incentives has increased notably in the **Netherlands**, both in absolute and relative.
- The cost of this support rose (in 2010 prices) from EUR 351 million in 2000 to EUR 1 156 million in 2016, with a marked increase in 2009-10 – connected to a temporary increase in the rate and threshold amount of the payroll incentive –, and after the introduction of the RDA allowance in 2012. The merger of the former withholding payroll tax credit for R&D with the RDA led to another upturn in 2016.
- As a percentage of GDP, tax support increased from 0.06% to 0.17% of GDP during the 2000-16 period.
- Direct funding of BERD declined from 0.05% to 0.02% of GDP over these years.
- The share of R&D tax incentives in total government support increased notably over the 2000-16 period, from 58% in 2000 to 90% in 2016.


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