R&D Tax Incentives: Romania, 2018

Design features

Romania provides R&D tax relief through a volume-based R&D tax allowance.

- The headline rate of the allowance is equal to 50%.
- In the case of insufficient tax liability, unused credits can be carried-forward for 7 years.

<table>
<thead>
<tr>
<th>R&amp;D tax allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of instrument*</td>
</tr>
<tr>
<td>Volume-based</td>
</tr>
<tr>
<td>Eligible expenditures†</td>
</tr>
<tr>
<td>Current, capital depreciation</td>
</tr>
<tr>
<td>Headline rates</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>Refund</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Carry-over (years)</td>
</tr>
<tr>
<td>7 (carry-forward)</td>
</tr>
<tr>
<td>Thresholds &amp; ceilings</td>
</tr>
</tbody>
</table>

*Romania also offers an accelerated depreciation for R&D capital.

For more 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. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Romania is estimated at 0.08 (0.07), well below the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.08 (0.07) in the profit (loss)-making scenario, below the OECD median of 0.13 (0.10). These estimates model the provision of the R&D tax allowance and the accelerated depreciation of R&D capital.

Since the introduction of an R&D tax allowance in 2010, the implied generosity of R&D tax incentives has remained unchanged in Romania (in each of the four scenarios considered). In the absence of R&D tax relief, tax subsidy rates are negative throughout the 2000-09 period. The smaller increase in implied marginal tax subsidy rates observable in 2005 is related to a reduction in the corporate income tax rate from 25% to 16%.

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

1 Disclaimer: http://oe.cd/disclaimer
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

- **Romania** 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 0.04% of GDP in 2016.
- From 2006 to 2016, total government support for BERD as a percentage of GDP declined in **Romania** by 0.06 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in **Romania** increased from 0.22% to 0.27%.
- In 2016, R&D tax incentives accounted for 15% of total government support for BERD in **Romania**.

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

- As a percentage of GDP, the cost of tax support was equivalent to 0.006% of GDP in 2016.
- Direct funding of BERD fluctuated over the 2000-16 period and declined from 0.09% of GDP in 2000 to 0.04% of GDP in 2016.
- The share of R&D tax incentives in total government support for BERD amounted to 17% in 2014 and 2015, reaching 15% in 2016.


© OECD 2019