R&D Tax Incentives: Russian Federation, 2018

Design features

The **Russian Federation** provides R&D tax relief through a volume-based R&D tax allowance and R&D tax credit (VAT and property tax exemption).

- Under each scheme, unused credits are neither refundable nor can be carried-forward in case of insufficient tax liability.
- No upper ceiling applies on the amount of qualifying R&D expenditure or value of R&D tax relief under the R&D tax allowance. The value of the R&D tax credit is limited to the VAT and property tax liability in the reporting period.

### Table 1. Main design features of R&D tax incentives in Russian Federation, 2018

<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>Volume allowance</th>
<th>Volume credit (VAT and property tax exemption)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible expenditures†</td>
<td>Current, depreciation (machinery and equipment)</td>
<td>Current (non-labour related), machinery and equipment, depreciation (buildings), intangibles</td>
</tr>
<tr>
<td>Headline rates</td>
<td>90</td>
<td>100 or 44*</td>
</tr>
</tbody>
</table>

| Refund                             | No               | No                                            |
| Carry-over (years)                 | No               | VAT and property tax liability                |

The Russian Federation also offers an accelerated depreciation of R&D capital. This is beyond the scope of this note. *100% or 44% VAT exemption (reduction of VAT rate from 18% to 0% or 10%) depending on activity and type of good; partial to full exemption of property tax.

*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. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in the Russian Federation is estimated at 0.11 (0.03), well below the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.11 (0.00) in the profit (loss)-making scenario, small than (well below) the OECD median of 0.13 (0.10). These estimates focus on modelling provisions of corporate income tax offsets - the R&D tax allowance and accelerated depreciation of R&D capital expenditure.

Since the introduction of an R&D tax allowance and accelerated depreciation provision for R&D capital in 2009, the generosity of R&D tax incentives has remained stable in **Russian Federation**, looking at each of the four scenarios considered. With no full expensing of R&D capital expenditure or any other enhanced tax relief provisions in place until 2009, this implies a negative marginal tax subsidy rate in both profit scenarios. In the case of loss-making firms, this subsidy rate is slightly higher in net present value terms due to the ability to carry over losses. With the reduction of the corporate income tax rate from 43% to 24% in 2012, implied R&D tax subsidy rates increase slightly, owing to the smaller weight that is placed on the non-availability of enhanced tax deductions. The value of allowances is directly linked to the magnitude of the corporate income tax rate. With no change in this rate and the rate of the tax allowance between 2009 and 2018, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remain constant at 0.11 throughout this period. Firms in a loss-making position effectively did not benefit from R&D tax relief between 2009 and 2018, when there was no refund or carry-over option in the **Russian Federation**.

**Figure 1. Implied tax subsidy rates on R&D expenditures: Russian Federation, 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/rdisstats/methodology.pdf](http://www.oecd.org/sti/rdisstats/methodology.pdf) and for notes regarding the modelling of the country-specific time series, see [http://www.oecd.org/sti/rdisstats/binding-notes.pdf](http://www.oecd.org/sti/rdisstats/binding-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

![Graph showing government funding and tax incentives for R&D in 2016]


- The **Russian Federation** ranks first among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.49% of GDP in 2016.
- From 2010 to 2016, total government support for BERD as a percentage of GDP remained stable in the **Russian Federation**, while the OECD median (2006-16) increased by 0.02 percentage points.
- From 2010 to 2016, business R&D intensity in the **Russian Federation** rose from 0.63% to 0.64%.
- In 2016, R&D tax incentives accounted for 22% of total government support for BERD.

**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, Russian Federation, 2000-16**

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

![Graph showing trends in government support for R&D in Russia from 2000 to 2016]


- Between 2010 and 2016 (the period for which relevant data are available), the importance of tax incentives increased in the **Russian Federation**, both in absolute and relative terms.
- The cost of tax support rose (in 2010 prices) from RUB 40 777 million in 2010 to RUB 57 386 million in 2016 (1 RUB = 0.014 USD, 31.12.2018), showing a sustained upward trend during the 2010-16 period.
- As percentage of GDP, tax support increased from 0.08% of GDP in 2010 to 0.11% in 2016.
- Direct funding of R&D decreased from 0.41% of GDP in 2010 to 0.38% in 2016.
- The share of tax incentives in total government support grew from 17% in 2011 to 22% in 2016.


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