R&D Tax Incentives: Slovak Republic, 2018

Design features
The Slovak Republic provides R&D tax relief through a hybrid R&D tax allowance.

- A volume-based tax allowance applies at a rate of 100% to qualifying R&D expenditure, raised from a rate of 50% for labour costs and 25% for other qualifying expenditure in 2017.
- The base amount above which 50% of incremental R&D expenditures qualify for an incremental tax allowance of 100% (25% in 2017) is defined as amount of qualifying R&D expenditures two years ago.
- In case of insufficient tax liability, unused credits can be carried-forward 4 years.

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

<table>
<thead>
<tr>
<th>Design feature</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of instrument</td>
<td>Hybrid (volume and increment)</td>
</tr>
<tr>
<td>Eligible expenditures†</td>
<td>Current, machinery and equipment, depreciation of buildings and land</td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>Volume: 100</td>
</tr>
<tr>
<td></td>
<td>Increment: 100 (applicable to 50% of incremental** R&amp;D expenditure)</td>
</tr>
<tr>
<td>Refund</td>
<td>No</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>4 (carry forward)</td>
</tr>
<tr>
<td>Thresholds</td>
<td>Base amount Qualifying R&amp;D expenditures two years ago</td>
</tr>
</tbody>
</table>

†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 Slovak Republic is estimated at 0.28 (0.22), above the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.28 (0.22) in the profit (loss)-making scenario, well above the OECD median of 0.13 (0.10). These estimates focus on modelling provisions of the general R&D tax allowance.

The Slovak Republic introduced R&D tax incentives in the form of a hybrid R&D tax allowance in 2015. Until then, a tax allowance (not modelled) was only available to R&D grant recipients. Since the value of tax deductions is directly linked to the rate of the corporate income tax rate, a slight decline in implied tax subsidy rates occurred in 2017 when the corporate income tax (CIT) rate was reduced from 22% to 21% in the Slovak Republic. A marked increase in implied marginal R&D tax subsidy rates is observable in 2018 when the Slovak Republic raised the rate of both the volume-based and incremental tax allowance and modified the definition of incremental R&D spending. With a 4-year carry-over option in place, loss-making firms faced a lower tax subsidy rate than profit making firms during the 2015-18 period.

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

- B-Index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and proffitability 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 incentive, 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 https://www.oecd.org/sti/rd-tax-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.
Public support for business R&D: the policy mix

Governments can 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

- The Slovak Republic 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 0.02% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP declined by 0.02 percentage points in the Slovak Republic while the OECD median (2006-16) increased by 0.02 percentage points.
- During this period, business R&D intensity in the Slovak Republic increased from 0.20% to 0.40%.
- In 2016, tax relief accounted for 23% of total government support for BERD in the Slovak Republic.

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

- The Slovak Republic offered R&D tax incentives exclusively to grant recipients until 2015 when a hybrid R&D tax allowance was introduced. The magnitude of tax support, while small by international standards (in absolute and relative terms) increased markedly in this year.
- The cost of this support rose (in 2010 prices) from EUR 0.01 million in 2010 to EUR 3.6 million in 2016 (1 EUR= 1.14 USD, 31.12.2018).
- As a percentage of GDP, R&D tax support was equivalent to 0.005% of GDP in 2016.
- Direct funding of BERD declined in the Slovak Republic over the 2000-16 period from 0.09% of GDP in 2000 to 0.015% of GDP in 2016, with a short-term upturn in 2015 (0.02% of GDP).
- The share of R&D tax incentives in total government support amounted to 23% in 2016.


© OECD 2019