

R&D Tax Incentives¹: Spain, 2018

Design features

Spain provides R&D tax relief through a hybrid R&D tax credit and social security contributions (SSC) exemption for qualified research staff. Both incentives are partially mutually exclusive in their use (except for innovative SMEs): expenditures claimed for researchers under one scheme are not eligible for the other.

- In case of insufficient income tax liability, unused tax credits can be carried-forward for 18 years or can alternatively be refunded at a 20% discount one year after the tax credit was generated.
- Ceilings apply on refunded credits and the amount of R&D tax relief for firms in any profit situation.

Table 1. Main design features of R&D tax incentives in Spain, 2018[†]

Tax incentive***	Tax deductions for R&D*		Social security exemption**
	Tax credit		SSC exemption
Type of instrument	Hybrid (volume-based and incremental)		Volume-based
Eligible expenditures [†]	Current, Machinery & Equipment (ME), intangibles		Labour
Headline rates	Volume: C: 25, +17 (R&D staff); ME & Intangibles: 8	Increment (on top of volume): C: 17	40
Refund	One year after the tax credit was generated (optional at 20% discount)		Redeemable against payroll/related taxes
Carry-over (years)	18 (carry-forward)		n.a.
Thresholds	Base amount	Average R&D expenditure in the preceding two years	
	R&D tax relief	25% of gross tax liability if the tax relief for R&D and technological innovation equals or is less than 10% of the tax due; else the cap is increased to 50% of the gross tax due	
Ceilings	R&D tax relief	SSC liability	
	Refund-specific	EUR 3 million****; raised to EUR 5 million when R&D expenses exceed 10% of turnover (1 EUR = 1.14 USD, 31.12.2018)	

* This tax incentive also applies to technological innovation with a tax credit rate of 12%, see OECD R&D Tax Incentive Compendium. **: Except for innovative SMEs, the R&D&I tax credit and SSC exemption are partially mutually exclusive in their use. SSC: Social Security Contributions; *** Spain also offers an accelerated depreciation for R&D capital and an income-based tax incentive for outcomes of R&D activities. These are beyond the scope of this note. **** The ceiling of 3 million applies to R&D and technological innovation deductions.

[†]For additional information: [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)
Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

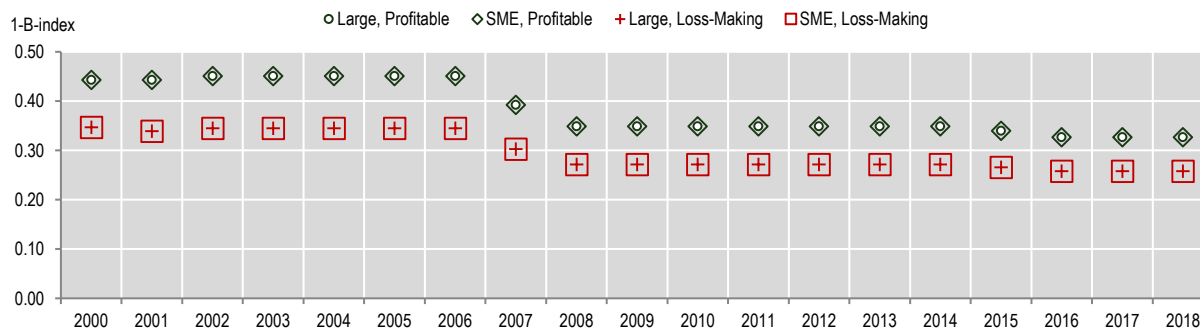
Recent developments and trends

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 a profit-making (loss-making) SME in Spain is estimated at 0.33 (0.26), well above the OECD median of 0.20 (0.17). In the case of large enterprises, the tax subsidy rate is equal to 0.33 (0.26) for profitable (loss-making enterprises) substantially over the OECD median, 0.13 (0.10). These estimates model provisions of the R&D tax credit and the accelerated depreciation of R&D capital.

Spain offers in 2018 one of the most generous R&D tax incentive provisions among OECD countries and partner economies, despite the decline in the generosity of the R&D tax credit regime over the 2000-18 period. The drop in implied marginal tax subsidy rates in 2007 and 2008 is accounted for by the stepwise reduction of the volume-based and incremental R&D tax credit rates that apply to eligible R&D expenditure in Spain. The less marked decline in the implied subsidy rates in 2016 and sustained in 2017 and 2018 is connected to a drop in the corporate income tax rate from 28% to 25%.

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

1-B-Index, by firm size and profit scenario



Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

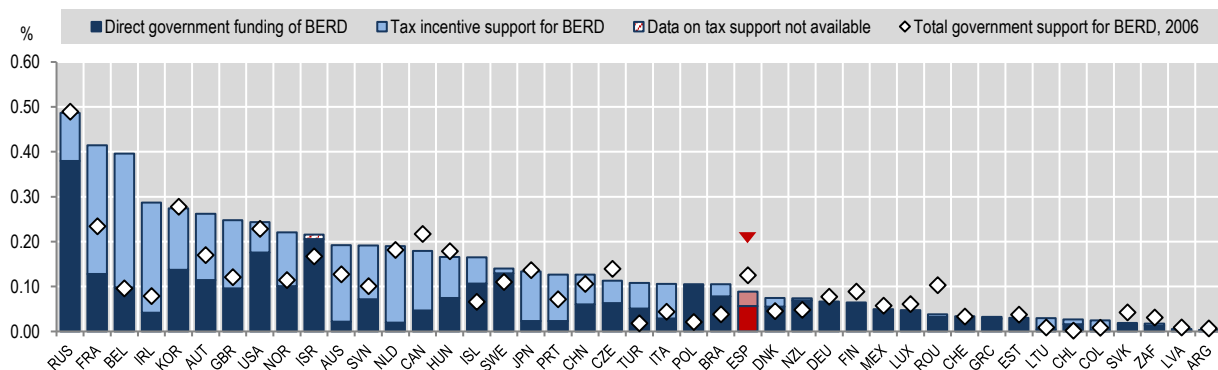
Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of 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>.

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



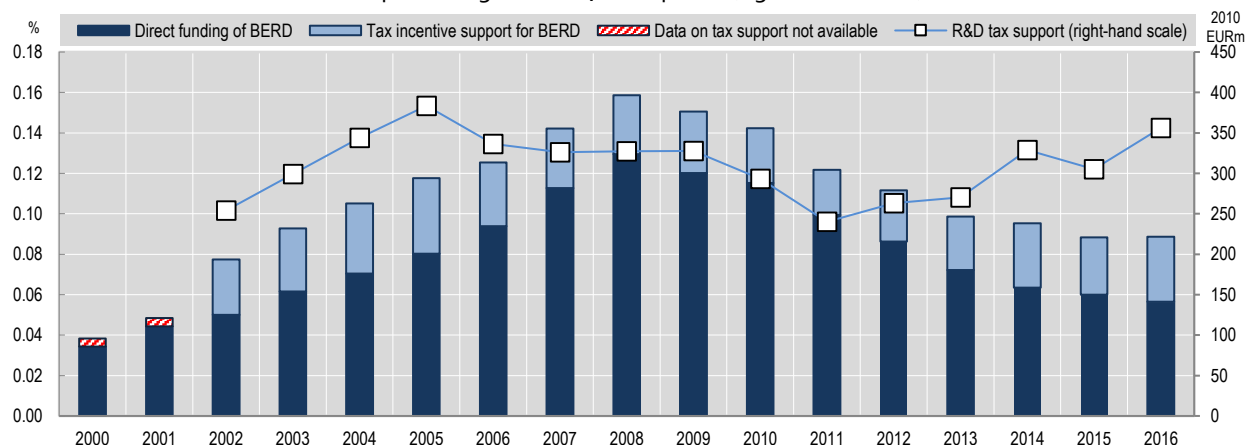
Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

- **Spain** is positioned slightly below the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.09% of GDP in 2016.
- From 2006 to 2016, total government support for BERD as a percentage of GDP declined by 0.04 percentage points (this percentage increased until 2008 and declined thereafter) in **Spain**, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in **Spain** declined marginally from 0.65% to 0.64%.
- In 2016, R&D tax incentives accounted for 36% of total government support for BERD in **Spain**.

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



Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

- From 2002 to 2016, the importance of R&D tax support remained overall stable in **Spain**, with some fluctuations observable in its absolute and relative magnitude during those years.
- The volume of R&D tax support increased from 2002 to 2005, declined thereafter, especially after the 2008-09 crisis, to revert back from 2011 onwards and reach EUR 356 million (in 2010 prices) in 2016.
- As percentage of GDP, tax support oscillated around 0.03% of GDP over the 2002-16 period.
- Direct funding of BERD reached its peak in 2008 (0.13% of GDP) and reverted to 0.06% in 2016.
- The share of tax incentives in total government funding amounted to 35% in 2002, reached a low of 18% in 2008 and 2011 and reverted back thereafter to reach to 36% in 2016.

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