R&D Tax Incentives: Sweden, 2019

Design features
Sweden provides R&D tax relief through a 10% exemption of employer's social security contributions. Tax benefits are administered entirely through the social security contributions system, and are thus disconnected from the corporate tax liability of the firm. The value of SSC deductions is limited to SEK 2.76 million per company (group) and year.

<table>
<thead>
<tr>
<th>Table 1. Main design features of R&amp;D tax incentives in Sweden, 2019†</th>
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<tbody>
<tr>
<td><strong>Tax incentive</strong></td>
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<td><strong>Type of instrument</strong></td>
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<td><strong>Eligible expenditures</strong></td>
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<td><strong>Headline rates (%)</strong></td>
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<td><strong>Refund</strong></td>
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<td><strong>Ceilings</strong></td>
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<td><strong>SSC deductions capped at SEK 230,000 per month and company/group (or SEK 2.76 million per year)</strong></td>
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†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. In 2019, the R&D tax subsidy rate for SMEs and large firms in Sweden is estimated at 0.05 in both profitability scenarios. This subsidy rate is well below the OECD median for profitable SMEs (0.19) and large firms (0.14) and smaller than the OECD median for loss-making SMEs (0.17) and large firms (0.10).

Sweden introduced R&D tax incentives for the first time in 2014 in the form of a partial exemption of employer social security contributions. With no full expensing of R&D capital expenditure or any other enhanced tax relief provisions in place until 2014, a negative marginal tax subsidy rates is estimated for both profit scenarios throughout the 2000-13 period. During this period, the step-wise reduction of the corporate income tax rate (from 28% to 26.5% in 2009 and to 22% in 2013) produced some minor increases in the R&D tax subsidy rate, due to the smaller weight 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. In the case of loss-making firms, the subsidy rate is slightly higher in net present value terms due to the ability to carry over losses. With no change in the rate of SSC exemption between 2014 and 2019, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remain constant at 0.05 throughout this period. Due to the refundable nature of the SSC exemption, the tax subsidy rates for profitable and loss-making firms coincide.

Figure 1. Implied tax subsidy rates on R&D expenditures: Sweden, 2000-19

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 (see methodology and country-specific notes) 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.
Public support for business R&D: the policy mix

In 2017, Sweden is close to the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.13% of GDP.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year) As a percentage of GDP


- From 2006 to 2017, government support for BERD as a percentage of GDP increased in Sweden by 0.015 pp. This increase is identical to the one observed at the OECD median.
- From 2006 to 2017, business R&D intensity in Sweden decreased from 2.61% to 2.42%.
- In 2017, R&D tax incentives accounted for 10% of total government support for BERD in Sweden.

Trends in government support for business R&D

Sweden introduced R&D tax incentives in 2014. While the importance of R&D tax incentives increased in absolute terms ever since, their relative importance has remained fairly stable over the 2014-17 period.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Sweden, 2000-17 As a percentage of GDP, 2010 prices (right-hand scale)


- As percentage of GDP, R&D tax incentives accounted for 0.012% in 2017, similar to 2014 (0.011%).
- Direct funding of BERD, equivalent to 0.19% of GDP in 2000, experienced an irregular decline over the 2000-17 period to 0.11% in 2017.
- The share of R&D tax incentives in total government support increased from 8% in 2014 to 10% in 2017.


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