R&D Tax Incentives: Sweden, 2018

Design features

Sweden provides R&D tax relief through a 10% exemption of employer social security contributions. This tax relief is designed to encourage firms to invest in R&D activities. The 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 the SSC deductions is limited to SEK 2.76 million per company (group) and year.

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

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>Partial exemption of employer social security contributions</th>
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<td>Type of instrument</td>
<td>Volume-based</td>
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<td>Eligible expenditures†</td>
<td>Labour</td>
</tr>
<tr>
<td>Headline rates (%)</td>
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<td>Refund</td>
<td>Redeemable against employer social security contributions</td>
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<td>Carry-over (years)</td>
<td>n.a.</td>
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<td>Ceilings</td>
<td>R&amp;D tax relief</td>
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<td></td>
<td>SSC deductions capped at SEK 230,000 per month and company/group (or SEK 2.76 million per year)*</td>
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† The resulting SS contribution after the deduction must be at least equal to the old age pension contribution of 0.1021 of the salary.

1 SEK = 0.11 USD, 31.12.2018

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 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 (0.20) and large firms (0.13) 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 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 rate is estimated for both profit scenarios throughout the 2000-13 period. 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. Following the step-wise reduction of the corporate income tax rate from 28% to 26.3% in 2009, lowered to 22% in 2013, R&D tax subsidy rates are still negative but slightly larger, owing to the smaller weight that is placed on the non-availability of enhanced tax deductions. The value of allowances is directly link to the magnitude of the corporate income tax rate. With no change in the rate of SSC exemption between 2014 and 2018, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remain constant at 0.05 throughout this period. Due to 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, 2000-18

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/els/r-d-tax-credit-index-methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/r-d-tax-credit/index-notes.pdf.
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

- **Sweden** is placed above the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.14% of GDP in 2014.
- From 2006 to 2014, government support for BERD as a percentage of GDP increased in **Sweden** by 0.03 percentage points, while the OECD median (2006-2016) increased by 0.02 percentage points.
- From 2006 to 2014, business R&D intensity in **Sweden** decreased from 2.61% to 2.11%.
- In 2014, R&D tax incentives accounted for 8% of total government support for BERD in **Sweden**.

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, Sweden, 2000-14**

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

- Sweden introduced R&D tax incentives in 2014 (the year for which relevant data are available).
- The cost of tax support (in 2010 prices) amounted to SEK 410 million in 2014.
- As percentage of GDP, R&D tax incentives accounted for 0.01% of GDP in this year.
- Direct funding of BERD, equivalent to 0.19% of GDP in 2000, declined over the 2000-14 period, with low in 2007 (0.11% of GDP) and slight upward trend thereafter to reach 0.13% of in 2014.
- The share of R&D tax incentives in total government support amounted to 8% in 2014.


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