R&D Tax Incentives[1]: Brazil, 2019

Design features

Brazil offers R&D tax incentives in the form of a volume-based R&D tax allowance.

- The R&D tax allowance rate varies between 60% (base) and 100%. Increments from the base rate to 70% and 80% apply when the headcount of researchers increases in a given year by up to 5% or more than 5% respectively. An extra 20% deduction is allowed for the qualifying costs incurred in developing a patent or cultivar if a patent/cultivar is registered.
- In case of insufficient tax liability, unused claims are neither refundable nor can be carried-forward.

Table 1. Main design features of R&D tax incentives in Brazil, 2019[†]

	R&D Tax Allowance
Tax incentive*	Tax Allowance
Type of instrument	Volume-based with hybrid elements
Eligible expenditures[†]	Current
Headline rates (%)	60-70-80-100**
Refund	No
Carry-over (years)	No

* Brazil also offers an accelerated depreciation of assets (machinery and equipment, intangibles) used in the process of R&D at a rate of 100%. **: Employees who relocated internally to work exclusively in research projects may also be considered in the increase of the number of researchers. Brazil offers income-based tax incentives for outcomes of R&D activities. The latter are beyond the scope of this note.

[†]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, December 2019.

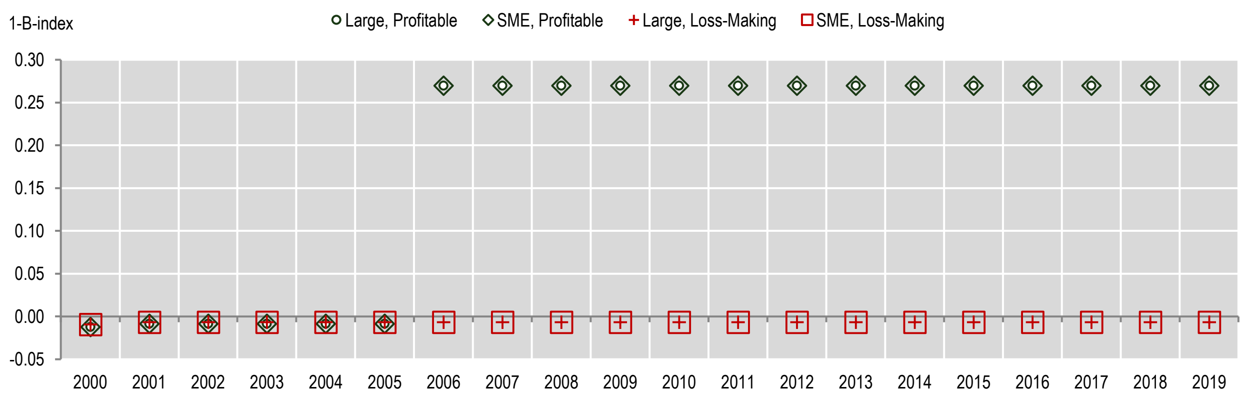
Recent developments and trends

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Brazil** is estimated at 0.27 (-0.01), larger (well below) the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises equals 0.27 (-0.01) in the profit (loss)-making scenario, much larger (well below) the OECD median of 0.14 (0.10). These estimates model the provisions for the R&D tax allowance and the accelerated depreciation of R&D capital.

Across the four scenarios considered, the generosity of R&D tax incentives has remained unchanged in **Brazil** since the introduction of an R&D tax allowance[2], in 2006With no carry-over or refund option in place, the implied tax subsidy rate estimated for SMEs and large firms effectively drops to zero in the loss-making scenario.

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

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



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

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.

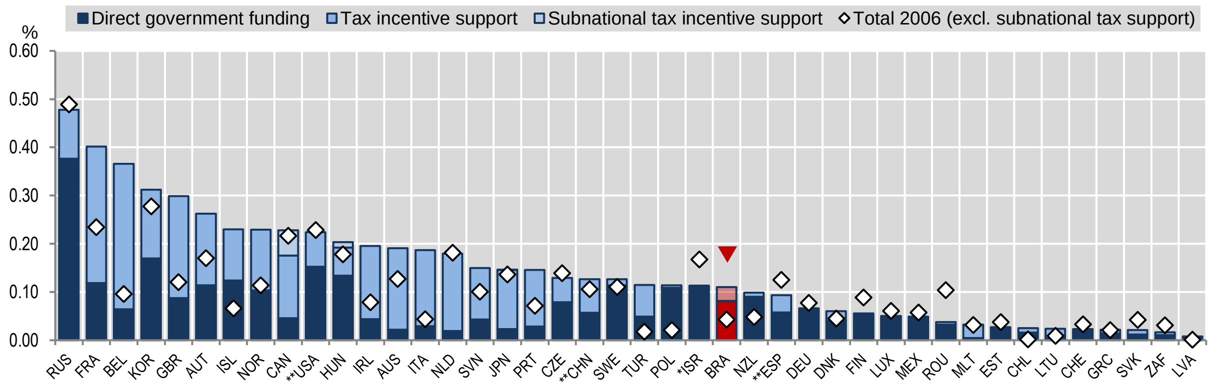
[1] Disclaimer: http://oe.cd/disclaimer

[2] SMEs in Brazil may opt to use a special simplified tax scheme (SIMPLES) which entails a significant reduction of CIT rates. This scheme cannot be combined with the enhanced R&D tax allowance. Most SMEs opt for this scheme instead of the R&D tax allowance.

Public support for business R&D: the policy mix

Brazil is below the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.11% of GDP in 2016 (latest figure available).

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



* Data on tax support not available, ** Data on subnational tax support not available

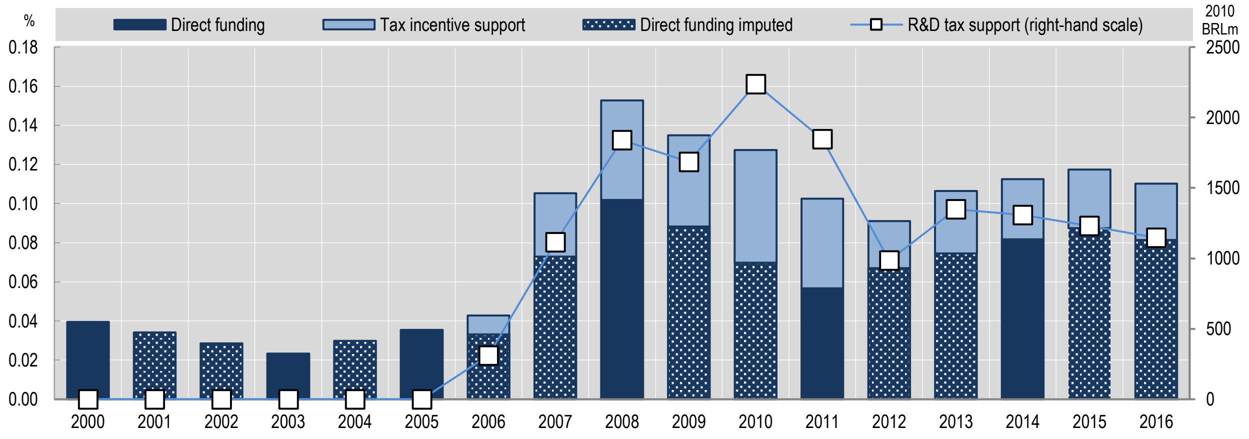
Source: OECD, R&D Tax Incentive Database, http://oe.cd/rdtax, December 2019.

- From 2006 to 2016, total federal government support for BERD as a percentage of GDP increased by 0.07 pp in **Brazil**, while the OECD median (2006-2017) increased by 0.015 pp.
- During this period, business R&D intensity in **Brazil** increased from 0.47% to 0.57%.
- In 2016, R&D tax incentives accounted for 26% of total government support for BERD in **Brazil**.

Trends in government support for Business R&D

Since the introduction of an R&D tax allowance in 2006, the importance of tax relief has increased in **Brazil**, with some down- and upturns observable following the onset of the global financial crisis.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Brazil, 2000-16
As a percentage of GDP, 2010 prices (right-hand scale)



The cost estimate of R&D tax incentive support for Brazil covers the R&D tax allowance and the accelerated depreciation of R&D capital

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

- The cost of R&D tax support rose (in 2010 prices) from BRL 310 million in 2006 (1 BRL = 0.226 EUR, Q3 2019) to BRL 1 147 million in 2016, with a peak of BRL 2 238 million in 2010.
- As percentage of GDP, tax support increased from 0.01% of GDP in 2006 to 0.03% of GDP in 2016.
- Direct funding of BERD fluctuated over the 2000-16 period, increasing from 0.04% of GDP in 2000 to 0.10% of GDP in 2008 to decline and revert back to 0.08% of GDP in 2016.
- The share of R&D tax incentives in total government funding varied over the 2006-16 period and rose from 22% in 2006 to 26% in 2016.

Please cite this note as: OECD (2019). "R&D Tax Incentives: Brazil, 2019", www.oecd.org/sti/rd-tax-stats-brazil.pdf, Directorate for Science, Technology and Innovation, December 2019.