R&D Tax Incentives: Colombia, 2020

Design of R&D tax relief provisions

Colombia provides R&D tax relief through a volume-based R&D tax credit, replacing the previous R&D tax allowance in Colombia 2017. In addition, Colombia introduced a dedicated R&D tax credit for SMEs in 2020.

Table 1. Main design features of R&D tax incentives in Colombia, 2020

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>R&amp;D tax credit</th>
<th>R&amp;D tax credit for SMEs</th>
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<tbody>
<tr>
<td>Type of instrument</td>
<td>Volume based</td>
<td>Volume based</td>
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<tr>
<td>Eligible expenditures</td>
<td>Current, depreciation</td>
<td>Current, depreciation</td>
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<tr>
<td>Headline rates (%)</td>
<td>25</td>
<td>50</td>
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<td>Refund</td>
<td>Payable over two years</td>
<td>Refund payable over two years</td>
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<tr>
<td>Carry-over (years)</td>
<td>4 year carry-forward</td>
<td>-</td>
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<tr>
<td>Thresholds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ceilings</td>
<td>R&amp;D credit is limited to 25% of tax liability and eligible R&amp;D spending is capped at COP million 90k per entity</td>
<td>Eligible R&amp;D spending is capped at COP million 90k per entity</td>
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Note: For more details, see OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief

Key features:
- The headline rate of the general R&D tax credit is 25% and 50% for the SME-specific R&D tax credit.
- Under the general R&D tax credit, firms can carry-forward unused credits over a four-year period, whereas a refund, payable over two years, is available under the R&D tax credit for SMEs.
- Different ceilings apply to subcontracted R&D, depending on the type of R&D service provider.

Generosity of R&D tax support in 2020

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. Colombia offers one of the most generous R&D tax incentives among OECD and partner economies. In 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Colombia is estimated at 0.68 (0.51), well above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is equal to 0.33 (0.24) in the profit (loss)-making scenario and likewise exceeds the OECD median of 0.17 (0.15). In the case of large firms, these estimates focus on the general R&D tax credit, whereas those for SMEs reflect the tax treatment available to SMEs under the refundable, SME-specific R&D tax credit introduced by Colombia in 2020.

Figure 1. Implied tax subsidy rates on R&D expenditures: Colombia, 2020

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 (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.
Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform (OECD, 2020), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, Colombia undertook one change in its R&D tax relief provisions:

- A volume-based tax credit was introduced for SMEs at a headline rate of 50% - twice as large as the rate available to large firms under the general R&D tax credit in Colombia.

This policy change was not related to the COVID-19 crisis.

Trends in the generosity of R&D tax support

The generosity of R&D tax incentives has increased significantly in Colombia over the 2000-20 period. Until 2016, Colombia offered R&D tax support through an enhanced, volume-based R&D tax allowance of 25%. Initially, this tax deduction entailed neither a refund nor carry-forward provision for the loss-making case.

This explains the divergence in implied R&D tax subsidy rates estimated for profitable (0.11) and loss-making (-0.02) firms until 2010 when Colombia introduced an indefinite carry-forward option for loss-making firms. With the possibility to carry-forward unused claims, the implied marginal R&D tax subsidy rate increased from -0.02 to 0.07 in the loss case, approaching the tax subsidy rates estimated for profitable firms (0.10) in 2010.

In 2011, Colombia raised the headline rate of the R&D tax allowance from 25% to 75%, leading to a significant increase in the implied R&D tax subsidy rates for SMEs and large firms from 0.10 (0.07) to 0.33 (0.26) in the profit (loss) making scenarios. The next larger-scale jump in implied R&D tax subsidy rates is visible in 2015. In this year, Colombia increased the rate of corporate income tax (CIT) from 34% to 39% which directly influenced and raised the value of tax deductions.

With the introduction of a new, volume-based R&D tax credit of 25% in 2017, replacing the existing R&D tax allowance scheme, R&D tax subsidy rates declined from 0.45 (0.34) to 0.37 (0.26) in the profit (loss) case. For SMEs, a significant increase in R&D tax subsidy rates can be witnessed in 2020, when a refundable R&D tax credit is introduced at a preferential rate of 50% exclusively for SMEs. In this year, the R&D tax subsidy rate estimated for profitable (loss-making) SMEs increased from 0.34 (0.25) to 0.68 (0.51).

Figure 2. Implied tax subsidy rates on R&D expenditures: Colombia, 2000-20

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 (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Policy support for business R&D: the policy mix

Colombia is among the OECD countries and partner economies that provide the lowest level of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.01% of GDP in 2018.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP

Note: Data on subnational tax support are only available for a group of countries.

Key points:
- From 2006 to 2018, government support for BERD as a percentage of GDP increased in Colombia by 0.003 percentage point (pp), while the OECD average (2006-2018) increased by 0.03 pp.
- From 2006 to 2018, business R&D intensity in Colombia increased from 0.03% to 0.11%.
- In 2018, R&D tax incentives accounted for 81% of total government support for BERD in Colombia.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018

By firm size*, share in percent

By industry**, share in percent

Note: Figures refer to the R&D tax allowance and general R&D tax credit. *SMEs are defined as firms with 1-200 employees. **Economic activity is classified based on the International Standard Industrial Classification of All Economic Activities (CIIU rev. 4).

Key points:
- In Colombia, SMEs accounted for 25% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to around 9% in this year. 91% of R&D tax benefits were allocated to large firms, comprising 72% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in services represented around 58% of R&D tax relief recipients in Colombia, followed by firms in manufacturing with a share of 29%. The share of R&D tax benefits accounted for by the latter amounted to 4% in that year, while this share amounted to 20% in the case of firms in services. The largest share of R&D tax benefits (68%) is attributable to firms in other sectors that in turn accounted for 10% of the population of R&D tax relief recipients in 2018.
Trends in the uptake of R&D tax incentives

Over the period 2015-2018 (for which relevant data are available), the number of R&D tax relief recipients in Colombia remained fairly constant at around 70, with the exception of the short-term increase in 2016. This increase is primarily attributable to SMEs. The number of SME that benefit from R&D tax support essentially doubled in that year, increasing from 19 to 41. By contrast, the number of large firms receiving R&D tax support increased by around 25% in 2016, from 51 to 65.

Figure 5. Number of R&D tax relief recipients, Colombia, 2015-2018

![Graph showing the number of R&D tax relief recipients in Colombia from 2015 to 2018](image)

Note: Figures refer to the R&D tax allowance and R&D tax credit.

Trends in government support for business R&D

Between 2000 and 2018, the importance of R&D tax support has increased significantly in Colombia, both in absolute and relative terms. However, it has been decreasing in most recent years.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Colombia, 2000-18

As a percentage of GDP, 2015 prices (right-hand scale)

![Graph showing direct funding and tax incentives for R&D in Colombia from 2000 to 2018](image)

- As percentage of GDP, R&D tax support increased from 0.005% to 0.009% of GDP during this period.
- Direct funding of BERD fluctuated significantly over the 2000-18 period, representing 0% in 2000, 0.016% in 2009, 0.006% in 2015 to reach 0.002% of GDP in 2018.
- The share of R&D tax incentives in total government support fluctuated accordingly, ranging from 100% in 2000, 16% in 2009, 85% in 2015 to 81% in 2018.