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

	R&D tax credit	R&D tax credit for SMEs
Tax incentive	R&D tax credit	R&D tax credit
Type of instrument	Volume based	Volume based
Eligible expenditures	Current, depreciation	Current, depreciation
Headline rates (%)	25	50
Refund		Refund payable over two years
Carry-over (years)	4 year carry-forward	
Thresholds	-	-
Ceilings	R&D credit is limited to 25% of tax liability and eligible R&D spending is capped at COP million 90k per entity	Eligible R&D spending is capped at COP million 90k per entity

Note: For more details, see OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Key features:

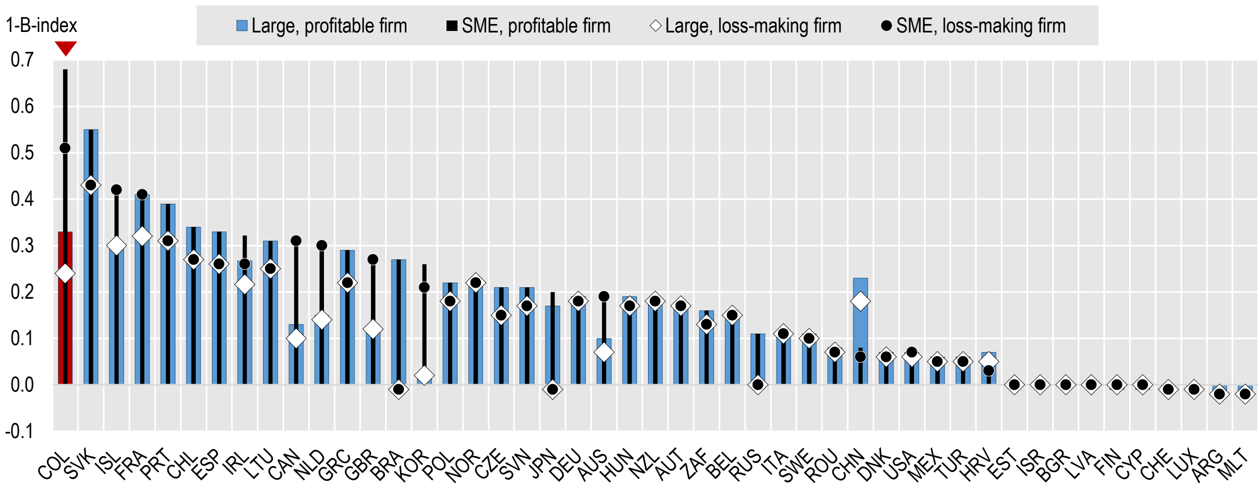
- The headline rate of the general R&D tax credit is 25% and 50% for the SME-specific R&D tax credit.
- Under the general R&D tax credit, firms can carry-forward unused credits over a four-year period, whereas a refund, payable over two years, is available under the R&D tax credit for SMEs.
- Different 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.
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

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.

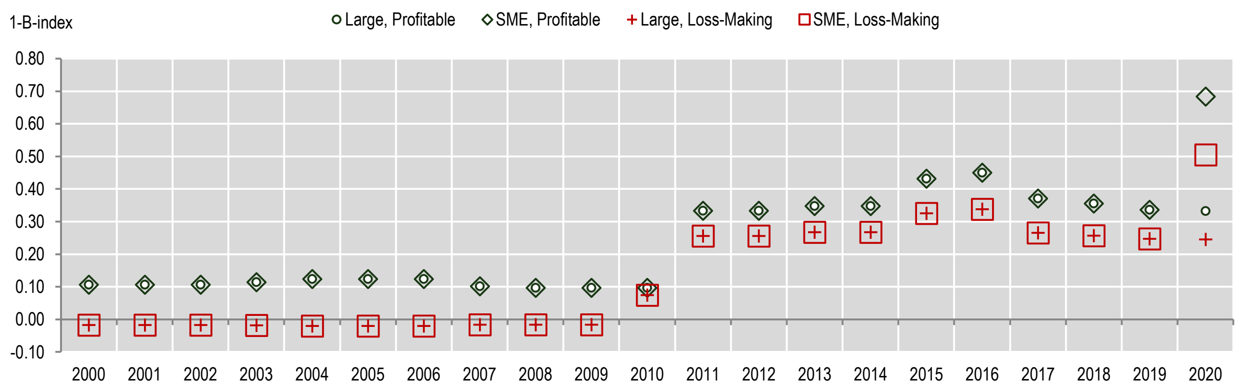
This explains the divergence in implied R&D tax subsidy rates estimated for profitable (0.11) and loss-making (-0.02) firms until 2010 when Colombia introduced an indefinite carry-forward option for loss-making firms. With the possibility to carry-forward unused claims, the implied marginal R&D tax subsidy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

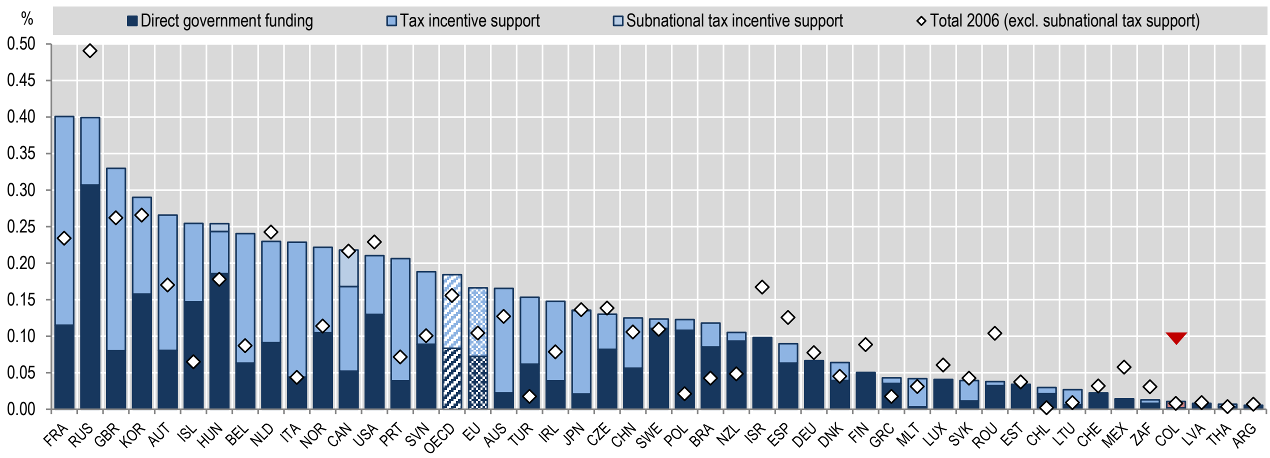
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

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.

Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Key points:

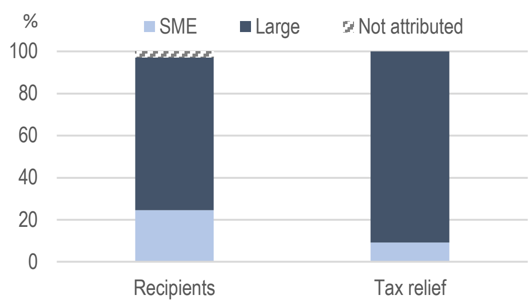
- From 2006 to 2018, government support for BERD as a percentage of GDP increased in **Colombia** by 0.003 percentage point (pp), while the OECD average (2006-2018) increased by 0.03 pp.
- From 2006 to 2018, business R&D intensity in **Colombia** increased from 0.03% to 0.11%.
- In 2018, R&D tax incentives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

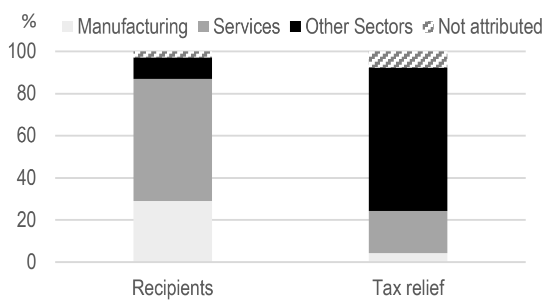
The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

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).

Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

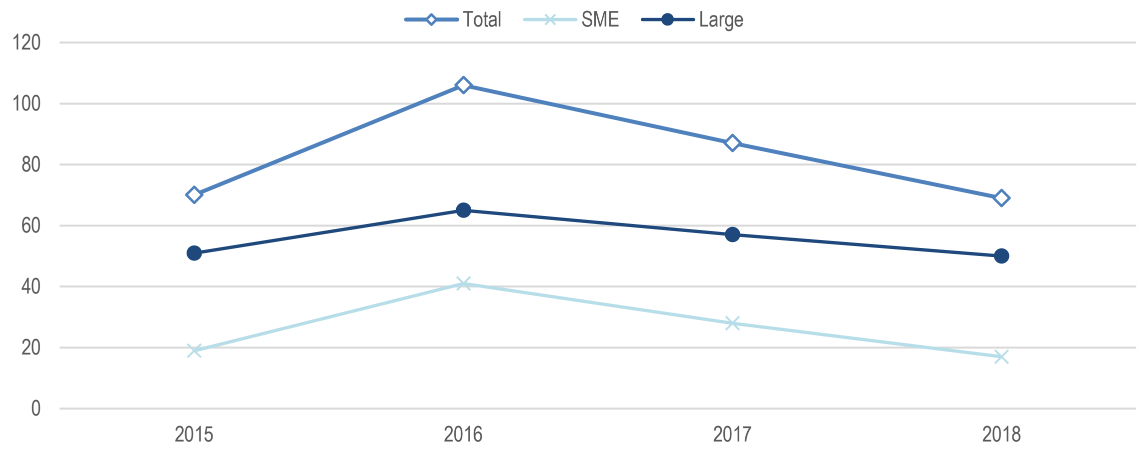
Key points:

- 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



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

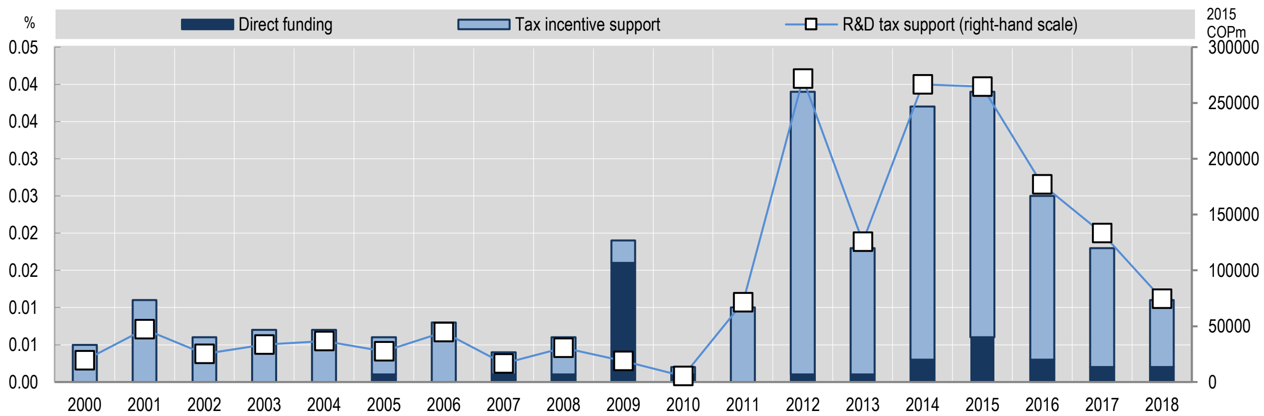
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

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)



Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) from 19 549 million in 2000 to 74 651 million in 2018.
- 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.

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