R&D Tax Incentives: Czech Republic, 2019

Design features
The Czech Republic provides R&D tax relief through a hybrid R&D tax allowance, which has both a volume-based and incremental component:

- The base amount above which R&D expenditure qualify for the incremental tax allowance of 10% is defined as amount of qualifying R&D expenditures in the previous year.
- In case of insufficient tax liability, unused allowances can be carried-forward for three years.
- No upper ceiling applies on the amount of qualifying R&D expenditure or value of R&D tax relief.

Table 1. Main design features of R&D tax incentives in Czech Republic, 2019

<table>
<thead>
<tr>
<th>Design features</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of instrument</td>
<td>Hybrid (volume-based and incremental)</td>
</tr>
<tr>
<td>Eligible expenditures</td>
<td>Current* and depreciation of movable fixed assets</td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>Volume: 100, Increment: 10</td>
</tr>
<tr>
<td>Refund</td>
<td>No</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>3 (carry-forward)</td>
</tr>
<tr>
<td>Thresholds</td>
<td>Base amount, Qualifying R&amp;D expenditure in the previous year</td>
</tr>
<tr>
<td>Ceilings</td>
<td>R&amp;D expenditure or R&amp;D tax relief, No</td>
</tr>
</tbody>
</table>

*Effective January 2014, qualifying expenses have been expanded to include external services related to R&D provided by public R&D institutions such as universities and research institutes.

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 the Czech Republic is estimated at 0.21 (0.15), above (below) the OECD median of 0.19 (0.17). The implied tax subsidy rate for large firms is equal to 0.21 (0.15) in the profit (loss)-making scenario, well above the OECD median of 0.14 (0.10).

Since the introduction of R&D tax support in the Czech Republic in 2005, implied marginal R&D tax subsidy rates have declined over time with a slight upturn in more recent years. In 2005, the tax subsidy rate for profitable (loss-making) SMEs and large firms was 0.30 (0.21) and reached 0.20 (0.15) in 2010. This decline is mainly attributable to the step-wise reduction in the corporate income tax rate between 2005 and 2010, whose magnitude directly affects the value of tax deductions. A slight increase in implied tax subsidy rates is observable for profit-making firms in 2014, when the R&D tax allowance was extended to incorporate an incremental component in 2014, while the R&D tax allowance was extended to incorporate an incremental and included machinery and equipment depreciation as eligible expenses.

Figure 1. Implied tax subsidy rates on R&D expenditures: Czech Republic, 2000-2019

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


Disclaimer: http://oe.cd/disclaimer
Public support for business R&D: the policy mix

In 2017, the Czech Republic 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, total government support for BERD as a percentage of GDP in the Czech Republic declined by 0.01 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in the Czech Republic increased from 0.72% to 1.13%.
- In 2017, tax incentives accounted for 39% of government support for BERD in the Czech Republic.

Trends in government support for business R&D

Since the introduction of an R&D tax allowance in 2005, the importance of R&D tax incentives has increased significantly in the Czech Republic, both in absolute and relative terms.

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

- In the Czech Republic, the cost of R&D tax relief rose (in 2010 prices) from CZK 925 million in 2005 to CZK 2,298 million in 2017 (1 CZK = 0.039 EUR, Q3 2019).
- As percentage of GDP, R&D tax support increased from 0.026% to 0.05% of GDP during this period.
- Direct funding of BERD increased from 2005 to 2011, declined to reach 0.06% of GDP in 2017 but then reverted to 0.08% of GDP in 2017.
- Total government support for BERD in 2017 (0.13%) coincides with its 2005 level.
- The share of R&D tax incentives in total government support effectively doubled over the 2005-17 period, increasing from 20% in 2005 to 39% in 2017.


© OECD 2019