**R&D Tax Incentives**: Iceland, 2019

**Design features**

Iceland provides R&D tax relief through a volume-based, payable (refundable) R&D tax credit with a headline rate of 20%.

- In the case of insufficient tax liability, firms are entitled to an immediate refund of unused credits.
- As of 2019, a minimum level (floor) of ISK 1 million (100 ISK = 0.723 EUR, Q3 2019) applies to R&D projects and an upper ceiling of ISK 600 million (previously ISK 300 million) applies to qualifying R&D expenditures. This cap has been raised from ISK 450 million to ISK 900 million in the case of purchased or collaborative R&D.

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<th>Table 1. Main design features of R&amp;D tax incentives in Iceland, 2019†</th>
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<td><strong>Type of instrument</strong></td>
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**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. Since the introduction of a refundable R&D tax credit in 2011, the generosity of R&D tax incentives has remained unchanged in Iceland. Due to the refundable nature of the tax credit, marginal tax subsidy rates for SMEs and large firms do not vary by profit scenario.

In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Iceland is estimated at 0.24 (0.24), above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.24 (0.24) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.14 (0.10).

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

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 (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.
Public support for business R&D: the policy mix

In 2017, Iceland is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.23% 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 increased in Iceland by 0.16 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Iceland declined from 1.54% to 1.35%
- In 2017, R&D tax incentives accounted for 46% of total government support for BERD in Iceland.

Trends in government support for business R&D

Since the introduction of R&D tax support in 2011, the importance of R&D tax incentives has increased in Iceland, both in absolute and relative terms.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Iceland, 2000-17

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


- The cost of tax relief rose (in 2010 prices) from ISK 611 million in 2011 to ISK 2 281 million in 2017 following the 2016 increase in the upper ceilings on qualifying R&D from ISK 100 million to ISK 300 million, and purchased or collaborative R&D from ISK 150 million to ISK 450 million.
- As percentage of GDP, R&D tax support increased from 0.04% to 0.11% over this period.
- Direct funding of BERD increased from 0.10% to 0.12% of GDP between 2011 and 2017.
- The share of tax incentives in total government support increased from 27% in 2011 to 46% in 2017.


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