

## R&D Tax Incentives<sup>1</sup>: Latvia, 2017

### Design features

Latvia provided R&D tax relief through a volume-based R&D tax allowance in 2017. However, this incentive has been abolished from January 2018.

- Under the old R&D tax allowance, unused claims could be carried forward indefinitely in the case of insufficient tax liability.
- No upper ceiling applied on the amount of eligible R&D expenditure or value of R&D tax relief.

Table 1. Main design features of R&D tax incentives in Latvia, 2017<sup>†</sup>

	R&D tax allowance
Type of instrument	Volume-based
Eligible expenditures <sup>†</sup>	Current
Headline rates	200
Refund	No
Carry-over (years)	Indefinite (carry-forward)
Thresholds & ceilings	No

<sup>†</sup>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 Indicators, <http://oe.cd/rdtax>, April 2018.

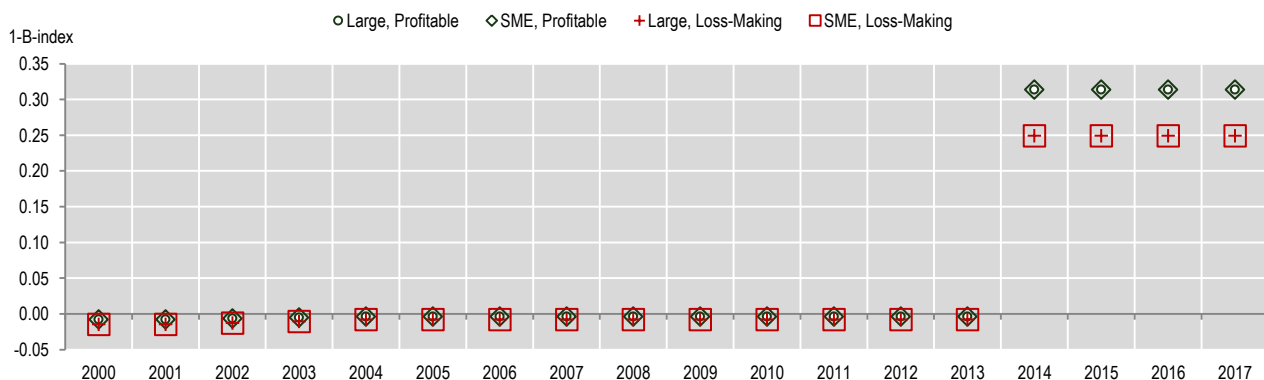
### Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. Since the introduction of an R&D tax allowance in Latvia in 2014 until its abolishment in 2018, the generosity of R&D tax support remained unchanged, as measured using the implied marginal tax subsidy rate by firm size and profit scenario.

Latvia offered in 2017 one of the most generous R&D tax incentives provisions among OECD and partner economies. The marginal tax subsidy rate for profit-making (loss-making) SMEs in Latvia was estimated at 0.31 (0.25), well above the OECD median of 0.19 (0.15). The tax subsidy rate for large enterprises was equal to 0.31 (0.25) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.11 (0.10). From 2018, this R&D tax incentive is no longer available.

Figure 1. Implied tax subsidy rates on R&D expenditures: Latvia, 2000-17

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



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, April 2018.

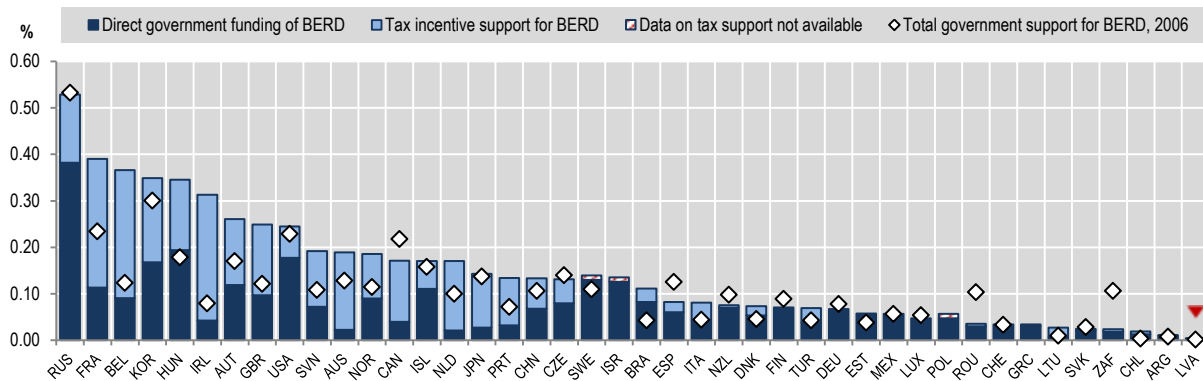
Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see <http://www.oecd.org/sti/rd-tax-stats-bindex-methodology.pdf> and for notes regarding the modelling of the country-specific time series, see <http://www.oecd.org/sti/rd-tax-stats-bindex-ts-notes.pdf>.

<sup>1</sup> Disclaimer: <http://oe.cd/disclaimer>

## Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 35 OECD countries provided fiscal incentives in 2017.

**Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2015 (nearest year)**  
As a percentage of GDP



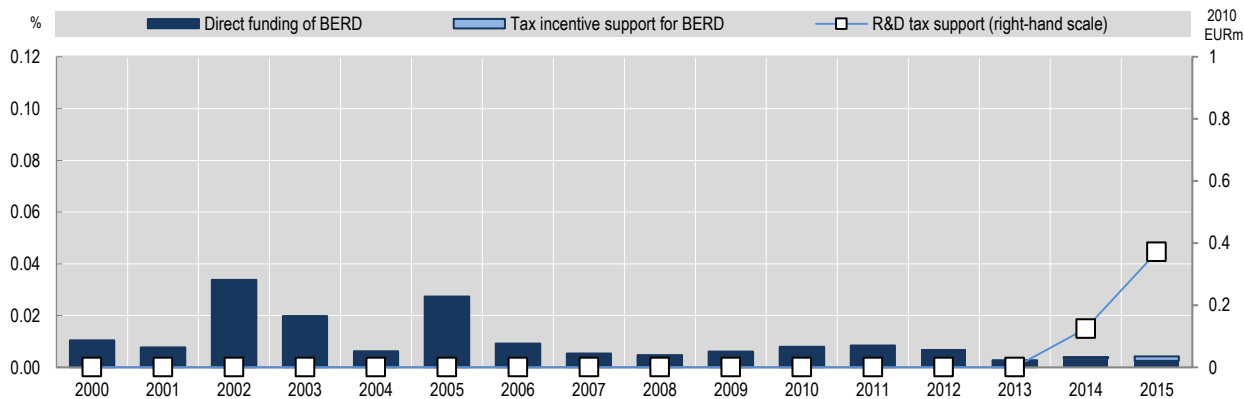
Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, April 2018.

- **Latvia** is placed among the lower tier of OECD and partner economies in terms of total government support for business R&D, equivalent to 0.004% of GDP.
- From 2006 to 2015, government support for BERD as a percentage of GDP remained stable in **Latvia**, while the OECD median increased by 0.02 percentage points.
- In 2015, R&D tax incentives accounted for 41% of total government support for BERD in **Latvia**.

## Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

**Figure 3. Direct funding of business R&D and tax incentives for R&D, Latvia, 2000-15**  
As a percentage of GDP, 2010 prices (right-hand scale)



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, April 2018.

- **Latvia** introduced an R&D tax incentive scheme in 2014 which will cease to be available from January 2018.
- The cost of tax relief rose (in 2010 prices) from EUR 0.14 million in 2014 in the year of the introduction, to EUR 0.37 million in the following year.
- As a percentage of GDP, the cost of R&D tax support was equivalent to 0.002% of GDP in 2015.
- Direct funding of BERD fluctuated significantly from 2000 to 2015, when it reached 0.003% of GDP.
- The share of R&D tax incentives in total government support rose from 15% in 2014 to 41% in 2015.

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