R&D Tax Incentives: Lithuania, 2019

Design features
Lithuania provides tax relief through a 200% allowance on the volume of eligible R&D expenditure.
- In the case of insufficient tax liability, unused claims can be carried-forward indefinitely.
- No threshold or ceiling restricts the amount of eligible R&D expenditures or value of R&D tax relief.

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<th>Table 1. Main design features of R&amp;D tax incentives in Lithuania, 2019†</th>
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<td>Type of instrument*</td>
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<td>Eligible expenditures†</td>
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<td>Carry-over (years)</td>
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<td>Thresholds &amp; ceilings</td>
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* Lithuania also offers an accelerated depreciation of assets used in the process of R&D (straight line depreciation of machinery and equipment over a two-year period and buildings over a 8-year period).
† For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief

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 Lithuania is estimated at 0.31 (0.25), well above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises equals 0.31 (0.25) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.14 (0.10). These estimates model the provisions for the R&D tax allowance and the accelerated depreciation for R&D capital.

Since the introduction of an R&D tax allowance in 2008 and with the exception of a temporary increase in 2009, the generosity of R&D tax incentives has effectively remained unchanged in Lithuania until 2019. In 2009, the corporate income tax rate was temporarily lifted from 15% to 20%. Since the value of tax deductions are directly linked to the corporate income tax (CIT) rate, this led to a short-term increase in the implied marginal R&D tax subsidy rates estimated for SMEs and large firms in both profit scenarios.

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

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Public support for business R&D: the policy mix

In 2017, Lithuania is among the lower tier of OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.02% 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, government support for BERD as a percentage of GDP increased in Lithuania by 0.01 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Lithuania increased from 0.22% to 0.33%.
- In 2017, R&D tax incentives accounted for 83% of total government support for BERD in Lithuania.

Trends in government support for business R&D

Since the introduction of an R&D tax allowance in 2008, the importance of R&D tax incentives has increased in Lithuania, both in absolute and relative terms.

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


- The cost of tax support rose (in 2010 prices) from EUR 1.8 million in 2008 to 7.1 million in 2017. It experienced a sharp increase in 2009 and an immediate decline in 2010, following changes in the CIT rate, and a marked increase again starting in 2013, driven by a significant increase in BERD.
- As percentage of GDP, R&D tax support increased from 0.006% to 0.02% of GDP during 2008-17.
- Direct funding of BERD oscillated between 0.001% and 0.01% of GDP during the same years, amounting to 0.004% of GDP in 2017.
- The share of tax incentives in total government support increased from 51% in 2008 to 83% in 2017.


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