R&D Tax Incentives: Netherlands, 2019

Design features

The Netherlands provide R&D tax relief through a payroll withholding tax credit (WBSO). This is the result of the 2016 merger of the former withholding payroll tax credit for R&D wage costs (WBSO) and the R&D tax allowance for non-labour related R&D expenses (RDA).

- The headline credit rate of 32% is 16% if the amount of eligible R&D costs surpasses a EUR 350 000 threshold.
- Tax benefits are administered entirely through the payroll tax system and do not depend on the corporate tax liability of the firm.

<table>
<thead>
<tr>
<th>Table 1. Main design features of R&amp;D tax incentives in Netherlands, 2019†</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of instrument</strong></td>
</tr>
<tr>
<td><strong>Eligible expenditures</strong>¹</td>
</tr>
<tr>
<td><strong>Headline rates</strong></td>
</tr>
<tr>
<td><strong>Refund</strong></td>
</tr>
<tr>
<td><strong>Carry-over (years)</strong></td>
</tr>
<tr>
<td><strong>Thresholds &amp; ceilings</strong></td>
</tr>
</tbody>
</table>

¹: 40 for start-ups - firms can be deemed to be a start-up company or entrepreneur for a maximum of three years. The amounts for the R&D deduction for self-employed amounts to EUR 12 775 (EUR 19 166 for starting self-employed/founders); **: In line with general wage rules, carry-over of unused claims is limited to consecutive tax periods within one calendar year. The Netherlands also offer an income-based tax incentive for outcomes of R&D activities. These are beyond the scope of this note.


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 Netherlands is estimated at 0.31 (0.30), well above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is 0.15 (0.15) in the profit (loss-making) scenario, above the OECD median of 0.14 (0.10).

The generosity of R&D tax incentives in the Netherlands has remained fairly stable over the 2000-19 period, with increases noticeable in 2009-11, when the WBSO tax credit rates were raised as a temporary measure. Headline rates for SMEs (R&D below expenditure threshold) and large enterprises (R&D above expenditure threshold) were raised from 42% to 50% and from 14% to 18% respectively. The introduction of the non-labour related R&D expenditure in 2012, accompanied by a reduction of WBSO headline rates, caused R&D tax credit rates to revert back to pre-2009 values. With the subsequent reduction of the WBSO rate for SMEs in 2013 and 2014, the gap in the tax subsidy rates estimated for SMEs and large firms further narrowed. Both schemes were merged in 2016. Under the new WBSO scheme – broader in scope but offered at slightly reduced headline tax credit rates – large firms continued to benefit from a similar rate of R&D tax subsidy at the margin. For SMEs, the merged scheme implied a more generous treatment of non-labour related costs, leading to an increase in the R&D tax subsidy rate estimated for SMEs in 2016. In 2018, the headline rate for large enterprises (R&D above expenditure threshold) was temporarily reduced from 16% to 14% (raised back to 16% in 2019), leading to a brief reduction in the implied tax subsidy rate for these firms. Due to refundable nature of the WBSO scheme, the tax subsidy rates for profitable and loss-making firms coincide except for the period when the RDA scheme was in place as a separate measure. If the WBSO threshold is considered in the modelling of R&D tax subsidy rates, the rate of large firms in 2019 rises from 0.15 (0.15) to 0.16 (0.16) in the profit (loss-making) scenario, and for profitable (loss-making) SMEs, it drops from 0.31 (0.30) to 0.26 (0.25).

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

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


Note: Implied marginal subsidy rates, presented for different firm size and profitability scenarios, are calculated from 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.

¹ Disclaimer: http://oe.cd/disclaimer
Public support for business R&D: the policy mix

In 2017, the Netherlands 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 0.18% 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 2011* to 2017, government support for BERD as a percentage of GDP increased remained constant in the Netherlands, while the OECD median (2006-17) increased by 0.015 pp.
- From 2011 to 2017, business R&D intensity in the Netherlands increased from 1.06% to 1.17%.
- In 2017, tax incentives accounted for 89% of total government support for BERD in the Netherlands.

Trends in government support for business R&D

Between 2000 and 2017, the importance of R&D tax incentives has increased notably in the Netherlands, both in absolute and relative terms.

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

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

- The cost of this support rose (in 2010 prices) from EUR 351 million in 2000 to EUR 1 118 million in 2017, with a marked increase in 2009-10 – connected to a temporary increase in the rate and threshold amount of the payroll incentive –, and after the introduction of the RDA allowance in 2012. The merger of the former withholding payroll tax credit for R&D with the RDA led to another upturn in 2016.
- As a percentage of GDP, tax support increased from 0.06% to 0.16% of GDP during the 2000-17 period.
- Direct funding of BERD declined from 0.05% to 0.02% of GDP over these years.
- The share of R&D tax incentives in total government support increased notably over the 2000-17 period, from 58% in 2000 to 89% in 2017.


© OECD 2019

---