R&D Tax Incentives: Portugal, 2019

Design features

Portugal provides tax relief through a hybrid R&D tax credit. Start-ups enjoy an enhanced credit rate on R&D volumes as long as they have not yet made use of the incremental tax offset.

- In the case of insufficient tax liability, unused credits can be carried-forward for 8 years.
- The base amount above which R&D expenditures qualify for the incremental tax credit is defined as average amount of qualifying R&D expenditures in the two previous fiscal years.
- Incremental R&D expenses are capped at EUR 1.5 million.

### Table 1. Main design features of R&D tax incentives in Portugal, 2019†

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<thead>
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<th>SIFIDE - II</th>
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<tbody>
<tr>
<td><strong>Tax incentive</strong></td>
<td>Tax credit</td>
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<tr>
<td><strong>Type of instrument</strong></td>
<td>Hybrid (volume-based and incremental)</td>
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<td><strong>Eligible expenditures</strong></td>
<td>Current, machinery &amp; equipment, intangibles</td>
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<td><strong>Headline rates (%)</strong></td>
<td>Volume: 32.5, (47.5 for start-ups*) Increment (on top of volume): 50</td>
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<td><strong>Refund</strong></td>
<td>No</td>
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<td><strong>Carry-over (years)</strong></td>
<td>8 (carry-forward)</td>
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† IRC taxpayers that are SMEs according to the definition given in article 2 of Decree-Law 372/2007 of 6 November, which have not yet completed two exercises and that did not benefit from the incremental rate set.

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 Portugal is estimated at 0.39 (0.31), well above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is 0.39 (0.31) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.14 (0.10). Both the volume-based and the incremental components are modelled.

The generosity of R&D tax support varied significantly in Portugal over the 2000-19 period across the four scenarios considered. In 2002, the volume-based and incremental rates of the SIFIDE-I tax credit rate were raised from 8% to 20% and 30% to 50% respectively. This led to a discrete jump in the implied R&D tax subsidy rates estimated. With the equalisation of CIT rates for SMEs and large firms, the R&D tax subsidy rates for SMEs coincide with those of large firms from 2002 onwards. Following the temporary suspension of the R&D tax credit in 2004-05, the tax credit was reintroduced in 2006, at the same volume-based and incremental rates. In 2009, the volume-based rate of SIFIDE-II was raised from 20% to 32.5%, leading to another marked increase in the estimated R&D tax subsidy rates. At the ceiling on the incremental part of the SIFIDE is considered in the modelling of R&D tax subsidy rates, the rate of large firms in 2019 drops from 0.39 (0.31) to 0.37 (0.29) in the profit (loss)-making scenario, and the one for profitable (loss-making) SMEs from 0.39 (0.31) to 0.38 (0.30).

![Figure 1. Evolution of the generosity of the tax incentive: Portugal, 2000-19](image)


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific rates) 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.

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

In 2017, Portugal 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 0.15% 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 Portugal by 0.07 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in the Portugal increased from 0.44% to 0.67%.
- In 2017, R&D tax incentives accounted for 81% of total government support for BERD in Portugal.

Trends in government support for business R&D

In Portugal, the cost of R&D tax support rose (in 2010 prices) from EUR 18 million in 2000 to EUR 212 million in 2017. This trend was only interrupted by the temporary suspension of the tax credit in 2004 and 2005.

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


- As percentage of GDP, tax support increased from 0.06% of GDP in 2006 - the year in which the SIFIDE tax credit was reintroduced - to 0.12% in 2017.
- Direct funding of BERD rose from 0.016% of GDP to 0.028% over the 2006-17 period but declined in more recent years.
- The share of R&D tax incentives in total government support fluctuated significantly over the 2000- 17 period, amounting to 55% in 2000, 0% in 2005, 65% in 2012 and 81% in 2017.