R&D Tax Incentives: Russian Federation, 2019

Design features

The Russian Federation provides R&D tax relief through a volume-based R&D tax allowance and an R&D tax credit (VAT and property tax exemption).

- Under both schemes, unused credits are neither refundable nor can be carried-forward in case of insufficient tax liability.
- No upper ceiling applies to the amount of qualifying R&D expenditure or value of R&D tax relief under the R&D tax allowance. The value of the R&D tax credit is limited to the VAT and property tax liability in the reporting period.

<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>R&amp;D tax allowance</th>
<th>R&amp;D tax credit (VAT and property tax exemption)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible expenditure</td>
<td>Volume-based</td>
<td>Volume-based</td>
</tr>
<tr>
<td>Current, depreciation (machinery and equipment)</td>
<td>50</td>
<td>100 or 44*</td>
</tr>
<tr>
<td>Current (non-labour related), machinery and equipment, depreciation (buildings), intangibles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Headline rates</td>
<td></td>
<td></td>
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<tr>
<td>Refund</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Carry-over (years)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ceiling</td>
<td>R&amp;D tax relief</td>
<td>VAT and property tax liability</td>
</tr>
</tbody>
</table>

† The Russian Federation also offers an accelerated depreciation of machinery and equipment used in the process of R&D (straight-line over 2 years) and for buildings (straight-line over ten years). *100% or 44% VAT exemption (reduction of VAT rate from 18% to 0% or 10%) depending on activity and type of good; partial to full exemption of property tax.


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 Russian Federation is estimated at 0.11 (0.00), well below the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.11 (0.00) in the profit (loss)-making scenario, smaller than (well below) the OECD median of 0.14 (0.10). These estimates focus on modelling the provisions for corporate income tax offsets - the R&D tax allowance and the accelerated depreciation of R&D capital expenditure.

Since the introduction of an R&D tax allowance and accelerated depreciation provision for R&D capital in 2009, the generosity of R&D tax incentives has remained stable in Russian Federation across the four scenarios considered. The absence of any enhanced tax relief provisions in place until 2009 implies a negative marginal tax subsidy rate in both profit scenarios. This subsidy rate is slightly higher for loss-making firms due to their ability to carry over losses. With the reduction of the corporate income tax rate from 43% to 24% in 2012, implied R&D tax subsidy rates increase slightly, owing to the smaller weight that is placed on the non-availability of enhanced tax deductions. The value of allowances is directly linked to the magnitude of the corporate income tax rate. With no change in this rate and the rate of the tax allowance between 2009 and 2019, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remain constant at 0.11 throughout this period. Firms in a loss-making position effectively did not benefit from R&D tax relief between 2009 and 2019, when there has been no refund or carry-over option in the Russian Federation.

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


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, the Russian Federation ranks first among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.48% 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 2010 to 2017, total support for BERD as a percentage of GDP decreased in the Russian Federation by 0.01 pp, while the OECD median (2006-17) increased by 0.015 pp.
- From 2010 to 2017, business R&D intensity in the Russian Federation rose from 0.63% to 0.67%.
- In 2017, R&D tax incentives accounted for 21% of total government support for BERD.

Trends in government support for business R&D

Between 2010 and 2017 (the period for which relevant data are available), the importance of tax incentives increased in the Russian Federation, both in absolute and relative terms.

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

- The cost estimate of tax incentive support for the Russian Federation covers the R&D tax allowance, the R&D tax credit and the accelerated depreciation of R&D capital.
- The share of tax incentives in total government support grew from 17% in 2010 to 21% in 2017.
