# R&D Tax Incentives: Slovak Republic, 2020

## Design of R&D tax relief provisions

The **Slovak Republic** provides R&D tax relief through a hybrid R&D tax allowance.

### Table 1. Main design features of R&D tax incentives in Slovak Republic, 2020

| | | R&D Tax Allowance | |
|---|---|---|---|
| **Tax incentive*** | | Tax allowance | |
| **Type of instrument** | | Hybrid (volume and increment) | |
| **Eligible expenditures**[†] | | Current, machinery and equipment, buildings and land | |
| **Headline rates (%)** | | Volume: 200 | Increment: 100 (applicable to 50% of incremental** R&D expenditure) |
| **Refund** | | No | |
| **Carry-over (years)** | | 5 (carry forward) | |
| **Thresholds** | Base amount | Qualifying R&D expenditures two years ago | |

*: The Slovak Republic also offers an R&D tax allowance for grant recipients. This incentive is beyond the scope of this note **: The incremental part is calculated as difference between: a) the arithmetic mean of R&D expenditures incurred in the applicable tax year and R&D expenditures incurred in the previous tax year [0.5*(RD_t - RD_t-1)], and b) the arithmetic mean of R&D expenditures incurred in the two immediately preceding tax years [0.5*(RD_t-1 and RD_t-2)], i.e. the eligible incremental part equals 0.5 * (RD_t - RD_t-2) where the base amount is RD_t-2.

*Note*: For more details, see OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief
*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Key features:

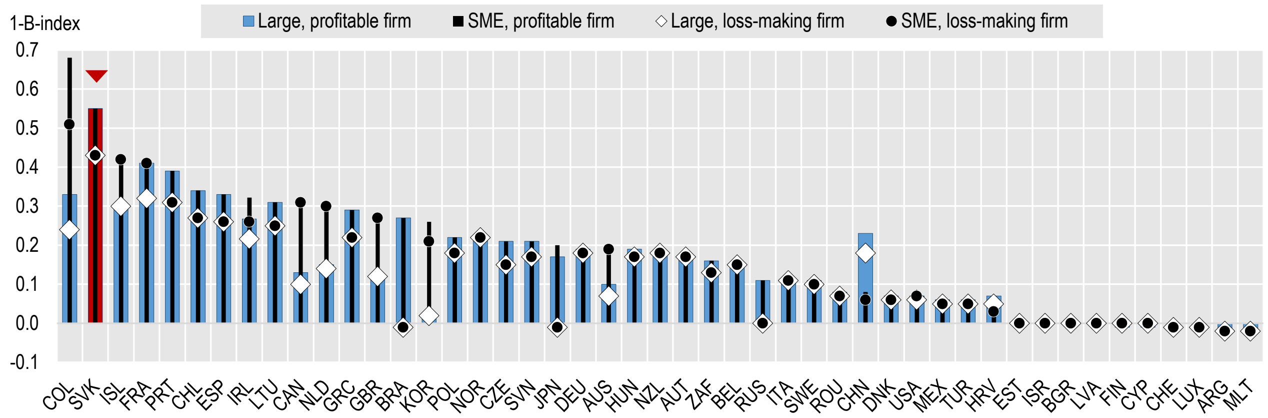
- A volume-based tax allowance applies at a rate of 200% to qualifying R&D expenditure in 2020, up from 150% in 2019.
- The base amount above which 50% of incremental R&D expenditures qualify for an incremental tax allowance of 100% is defined as the qualifying R&D expenditures two years ago.
- In case of insufficient tax liability, unused credits can be carried-forward 5 years.

## Generosity of R&D tax support in 2020

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 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in the **Slovak Republic** is estimated at 0.55 (0.43), significantly above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is equal to 0.55 (0.43) in the profit (loss)-making scenario and likewise well above the OECD median of 0.17 (0.15). These estimates focus on modelling the provisions for the hybrid R&D tax allowance.

### Figure 1. Implied tax subsidy rates on R&D expenditures: Slovak Republic, 2020

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 based on headline tax credit/allowance rates (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.
*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

## Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform (OECD, 2020), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, the **Slovak Republic** undertook **one change** in its R&D tax relief provisions:

- The super deduction for R&D activities that was introduced in 2015 has been increased from 150% to 200% on January 1, 2020 and the carry-forward provision was extended from 4 to 5 years,

This policy change was not taken in response to **the COVID-19 crisis**.

## Trends in the generosity of R&D tax support

The **Slovak Republic** introduced R&D tax incentives in the form of an R&D tax allowance with a volume-based and incremental component in 2015. Until then, a tax allowance (not modelled) was only available to R&D grant recipients.

Since the value of tax deductions is directly linked to the rate of the corporate income tax rate, a slight decline in implied tax subsidy rates occurred in 2017 when the corporate income tax (CIT) rate was reduced from 22% to 21% in the **Slovak Republic**.

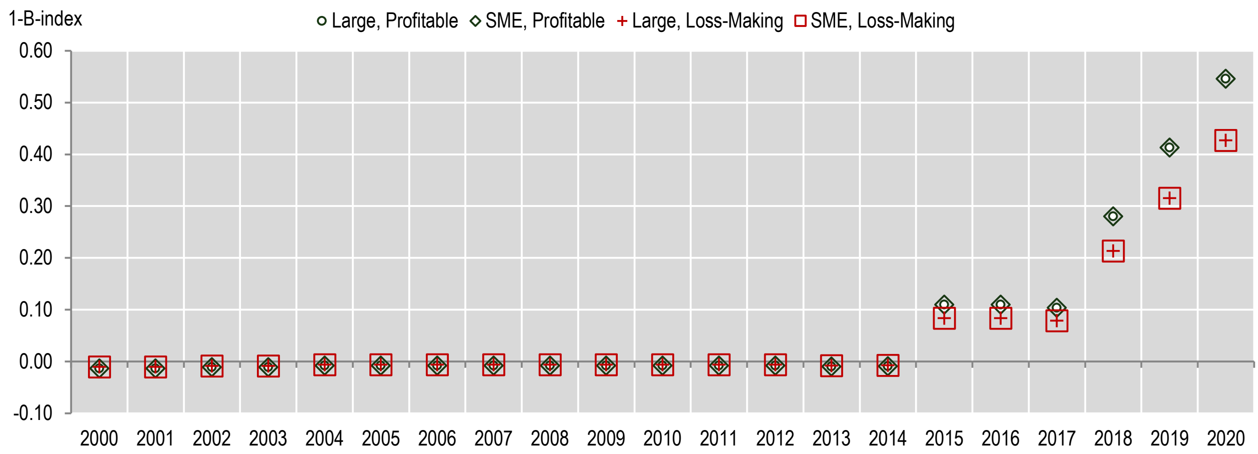
A marked increase in implied marginal R&D tax subsidy rates is observable in 2018 when the **Slovak Republic** raised the rate of both the volume-based and incremental tax allowance and modified the definition of incremental R&D spending.

The step-wise increase in the rate of the volume-based R&D tax allowance from 100% to 150% in 2018 to 200% in 2020 led to additional increases in the R&D tax subsidy rate in both profit scenarios.

With a 5-year carry-over option in place, loss-making firms faced a lower tax subsidy rate than profit making firms during the 2015-20 period.

**Figure 2. Implied tax subsidy rates on R&D expenditures: Slovak Republic, 2000-20**

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 based on headline tax credit/allowance rates (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

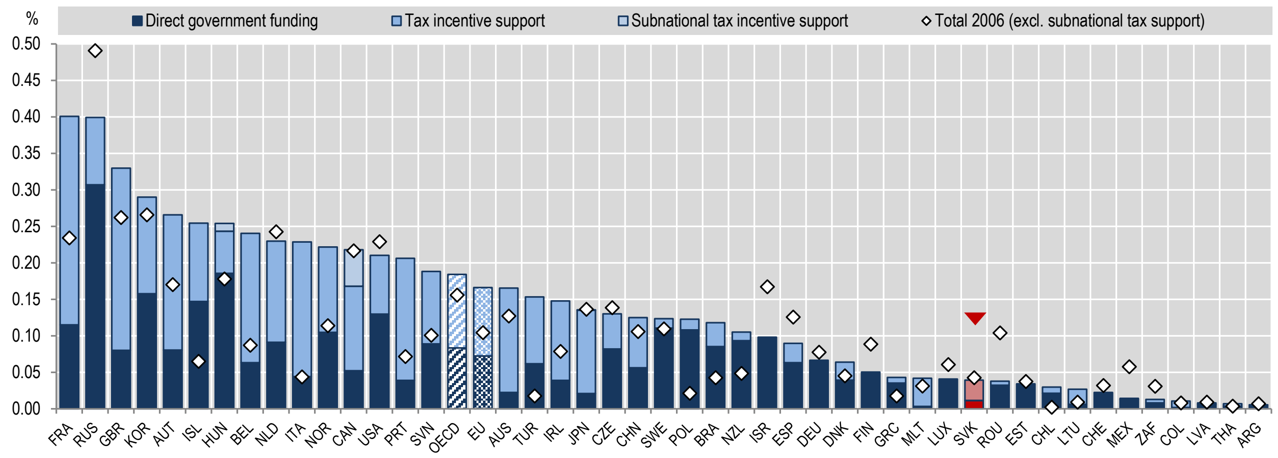
*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

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

In 2018, the **Slovak Republic** is among the countries with the lowest level of government support to business R&D as a percentage of GDP, at a rate equivalent to 0.04% of GDP.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)**

As a percentage of GDP




*Note*: Data on subnational tax support are only available for a group of countries.

*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Key points:

- From 2006 to 2018, government support for BERD as a percentage of GDP declined by 0.003 percentage point (pp) in the **Slovak Republic** while the OECD average increased by 0.03 pp.
- During this period, business R&D intensity in the **Slovak Republic** increased from 0.20% to 0.45%.
- In 2018, tax relief accounted for 71% of total government support for BERD in the **Slovak Republic**.

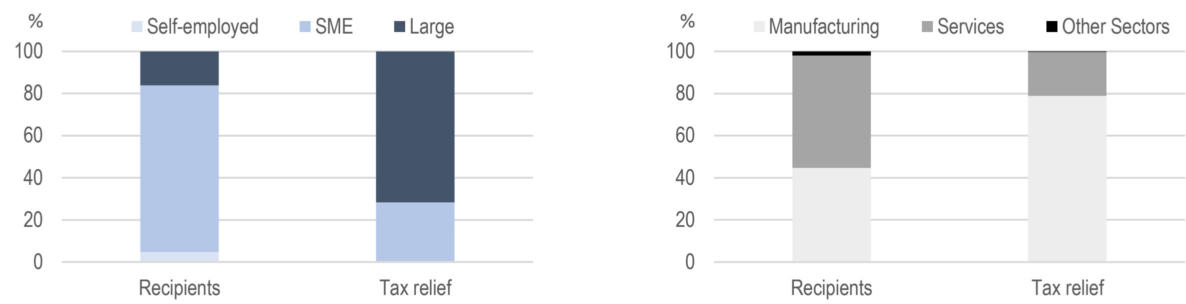
## Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

**Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018**

By firm size*, share in percent

By industry**, share in percent




*Note:* Figures refer to the R&D tax allowance.*SMEs are defined as firms with less than 250 employees, an annual turnover that does not exceed EUR 50 million or an annual balance sheet that does not exceed EUR 43 million. **No details on the industry classification available.

*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

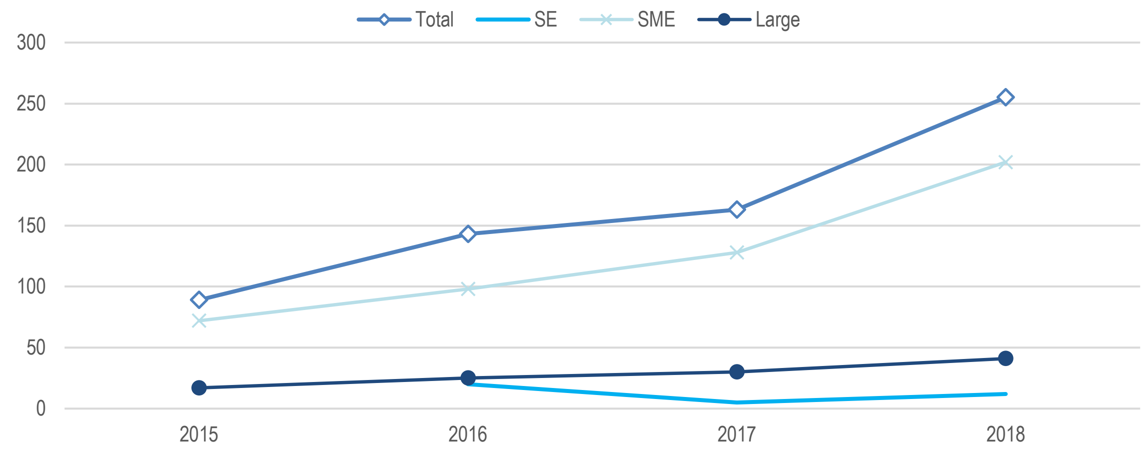
Key points:

- In the **Slovak Republic**, SMEs accounted for 79% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to 28% in this year. 72% of R&D tax benefits were allocated to large firms, comprising 16% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in services represented around 53% of R&D tax relief recipients in the **Slovak Republic**, followed by firms in manufacturing with a share of 45%. The share of R&D tax benefits accounted for by the latter amounted to 79% in that year, while this share amounted to 21% for firms in services.

## Trends in the uptake of R&D tax incentives

Following of the introduction of the hybrid R&D tax allowance in 2015, the number of R&D tax relief recipients nearly tripled in the **Slovak Republic** from 2015 to 2018, reaching around 250 recipients in 2018. This increase is primarily attributable to SMEs, accounting for more than 70% of R&D tax relief recipients in the **Slovak Republic** in these years. Between 2015 and 2018, the number of SMEs receiving tax support increased from around 70 to 202, while the number of large firms receiving R&D tax relief increased from around 20 to 40.

**Figure 5. Number of R&D tax relief recipients, Slovak Republic, 2015-2018**




*Note:* Figures refer to R&D tax allowance (introduced 2015).

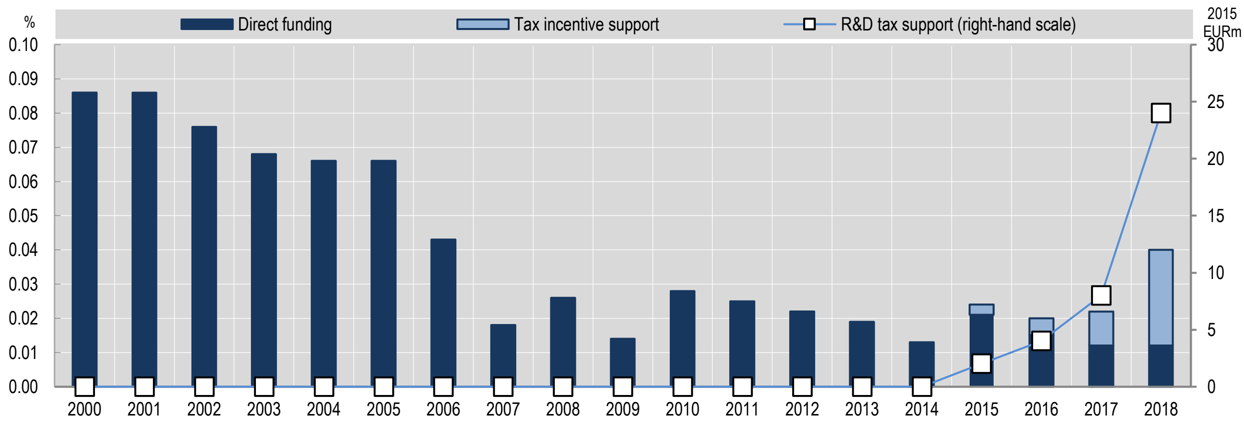
*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

## Trends in government support for business R&D

The **Slovak Republic** offered R&D tax incentives exclusively to grant recipients until 2015 when a hybrid R&D tax allowance was introduced. The magnitude of tax support, while small by international standards (in absolute and relative terms) rose markedly in this year and continued to increase ever since.

**Figure 6. Direct funding of business R&D and tax incentives for R&D, Slovak Republic, 2000-18**

As a percentage of GDP, 2015 prices (right-hand scale)




*Source*: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

- The cost of government tax support for R&D rose (in 2015 prices) from EUR 2 million in 2015 to EUR 24 million in 2018 when the rate of both the volume-based and incremental tax allowance was raised and the definition of incremental R&D spending was modified.
- As a percentage of GDP, R&D tax support was equivalent to 0.03% of GDP in 2018.
- Direct funding of BERD declined in the **Slovak Republic** from 0.09% of GDP in 2000 to 0.012% of GDP in 2018. This decline, in particular in the early 2000s, is largely attributable to GDP growth.
- The share of R&D tax incentives in total government support rose from 11% in 2015 to 71% in 2018.

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