R&D Tax Incentives: Slovak Republic, 2019

Design features

The Slovak Republic provides R&D tax relief through a hybrid R&D tax allowance.
- A volume-based tax allowance applies at a rate of 100% to qualifying R&D expenditure, raised in 2017 from a rate of 50% for labour costs and 25% for other qualifying expenditure.
- The base amount above which 50% of incremental R&D expenditures qualify for an incremental tax allowance of 100% (25% in 2017) is defined as the qualifying R&D expenditures two years ago.
- In case of insufficient tax liability, unused credits can be carried-forward 4 years.

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

<table>
<thead>
<tr>
<th>R&amp;D Tax Allowance</th>
<th>Eligible expenditures†</th>
<th>Headline rates (%)</th>
<th>Refund</th>
<th>Carry-over (years)</th>
<th>Thresholds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of instrument</td>
<td>Hybrid (volume and increment)</td>
<td>Volume: 100</td>
<td>Increment: 100 (applicable to 50% of incremental** R&amp;D expenditure)</td>
<td>No</td>
<td>4 (carry forward)</td>
</tr>
<tr>
<td>Eligible expenditures</td>
<td>Current, machinery and equipment, depreciation of buildings and land</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax incentive*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Base amount Qualifying R&amp;D expenditures two years ago</td>
</tr>
</tbody>
</table>

* 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-1 - RD_t-2) where the base amount is RD_t-2.


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 Slovak Republic is estimated at 0.28 (0.22), above the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises is equal to 0.28 (0.22) in the profit (loss) making scenario, well above the OECD median of 0.14 (0.10). These estimates focus on modelling the provisions for the hybrid R&D tax allowance.

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. With a 4-year carry-over option in place, loss-making firms faced a lower tax subsidy rate than profit making firms during the 2015-19 period.

### Figure 1. Implied tax subsidy rates on R&D expenditures: Slovak Republic, 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.
Public support for business R&D: the policy mix

In 2017, 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 0.02% 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

* Data on tax support not available, ** Data on subnational tax support not available


- From 2006 to 2017, government support for BERD as a percentage of GDP declined by 0.02 pp in the Slovak Republic while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in the Slovak Republic increased from 0.20% to 0.48%.
- In 2017, tax relief accounted for 45% of total government support for BERD in the Slovak Republic.

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 3. Direct government funding of business R&D and tax incentives for R&D, Slovak Republic, 2000-17**

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

The cost estimate of tax incentive support for the Slovak Republic covers the R&D tax allowance for grant recipients and, since 2015, the R&D tax allowance


- The cost of this support rose (in 2010 prices) from EUR 0.01 million in 2010 to EUR 2 million in 2015 and EUR 8 million in 2017.
- As a percentage of GDP, R&D tax support was equivalent to 0.01% of GDP in 2017.
- Direct funding of BERD declined in the Slovak Republic from 0.09% of GDP in 2000 to 0.012% of GDP in 2017. 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 45% in 2017.


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