

R&D Tax Incentives: Spain, 2020

Design of R&D tax relief provisions

Spain provides R&D tax relief through a hybrid tax credit and a partial exemption on employers' social security contributions (SSC) for qualified research staff. Both incentives are mutually exclusive in their use (except for innovative SMEs). A pre-assessment of qualifying R&D&I expenses is in place under the R&D&I tax credit.

Table 1. Main design features of R&D tax incentives in Spain, 2020

Tax incentive***	Tax deductions for R&D*		Social security exemption**
	Tax credit		SSC exemption
Type of instrument	Hybrid (volume-based and incremental)		Volume-based
Eligible expenditures†	Current, Machinery & Equipment (ME), intangibles		Labour
Headline rates (%)	Volume: C: 25, +17 (R&D staff); ME & Intangibles: 8	Increment (on top of volume): C: 17	40 (Full-time research staff)
Refund	One year after the tax credit was generated (optional at 20% discount)		Redeemable against payroll/related taxes
Carry-over (years)	18 (carry-forward)		n.a.
Threshold	Base amount	Average R&D expenditure in the preceding two years	n.a.
Ceilings	R&D tax relief	25% of gross tax liability if the tax relief for R&D and technological innovation equals or is less than 10% of the tax due; else the cap is increased to 50% of the gross tax due	SSC liability
	Refund-specific	EUR 3 million***; raised to EUR 5 million when R&D expenses exceed 10% of turnover	-

* This tax incentive also applies to technological innovation with a tax credit rate of 12%; to qualify for the refundable tax credit, firms need to meet certain requirements (e.g. maintain the average number of R&D&I staff for up to two years from the end of the tax period the credit was generated), see OECD R&D Tax Incentive Compendium. **: SSC: Social Security Contributions for full-time researchers, including temporary staff and interns (minimum tenure of 3 months where staff member is fully dedicated to R&D projects; up to 15% of time may be at most allocated to certain activities like training). *** The ceiling of 3 million applies to R&D and technological innovation deductions. **** Spain also offers an accelerated depreciation of machinery and equipment and intangibles (immediate write-off) as well as buildings (straight-line depreciation over 10 years) used in the process of R&D. In addition, Spain provides an income-based tax incentive for outcomes of R&D activities. This incentive is beyond the scope of this note.

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:

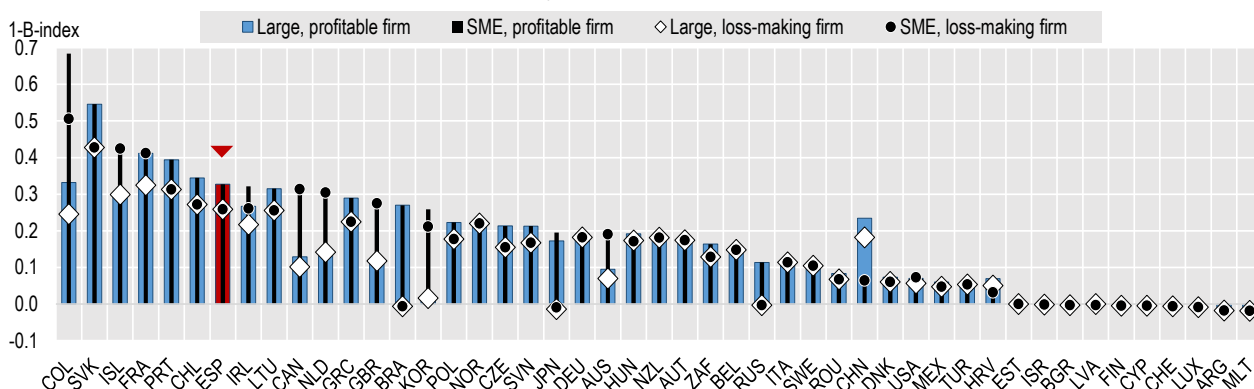
- In case of insufficient income tax liability, unused tax credits can be carried-forward for 18 years or obtain a refund at a 20% discount one year after the tax credit was generated.
- Ceilings apply to refunded credits and the amount of R&D tax relief for firms in any profit situation.
- The Autonomous Communities of the Basque Country, Navarre and Canary Islands offer additional R&D tax incentives. The headline tax credit rate in the Basque Country is 30% (50% incremental) and 40% (42% incremental) in Navarre. In the Basque Country, the rate goes up to 50% in the case of R&D subcontracted to universities or accredited research and technology organisation.
- Spain also provides tax relief in form of a partial exemption for income from certain intangible assets.

Generosity of R&D tax support in 2020

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2020, the notional marginal tax subsidy rate for a profit-making (loss-making) SME in Spain is estimated at 0.33 (0.26), well above the OECD median of 0.20 (0.18).

Figure 1. Implied tax subsidy rates on R&D expenditures: Spain, 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.

In the case of large enterprises, the tax subsidy rate is equal to 0.33 (0.26) for profitable (loss-making enterprises), substantially larger than the OECD median of 0.17 (0.15). These estimates model the provisions for the R&D tax credit and the accelerated depreciation of R&D capital.

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, **Spain** undertook **one change** in its R&D tax relief provisions:

- **In response to the COVID-19 crisis**, the rate of the tax credit for SMEs is increased from 12% to 50% (from 12% to 15% in the case of large firms) for expenses in technological innovation activities aiming at new or relevant improvements in the production processes in the value chain of the automotive industry in **Spain**. This change applies to the fiscal years 2020 and 2021.

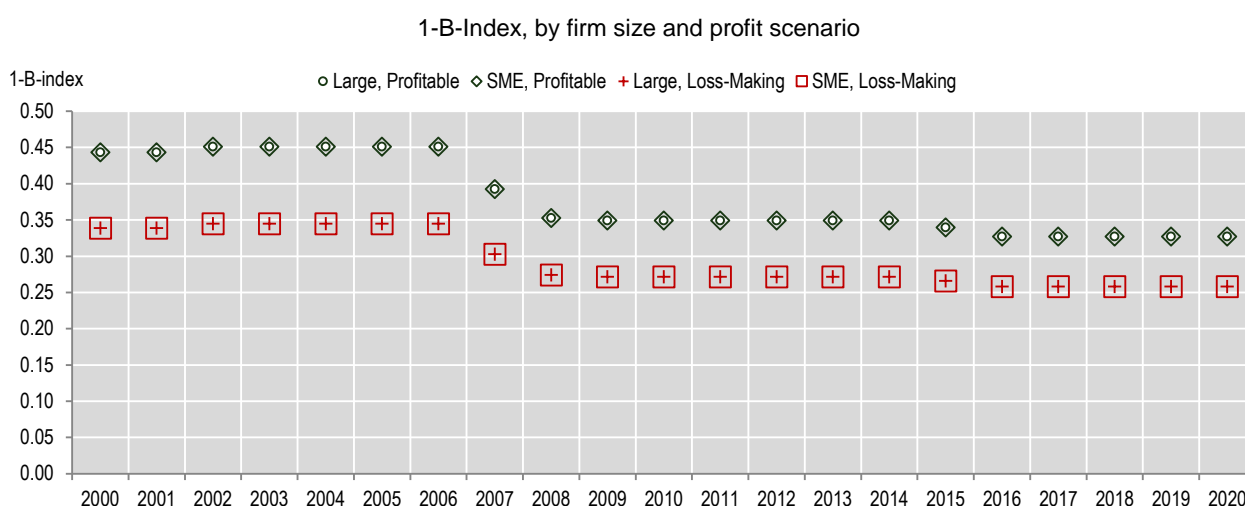
Trends in the generosity of R&D tax support

Spain offers in 2020 one of the most generous R&D tax incentive provisions among OECD countries and partner economies, despite the decline in the generosity of the R&D tax credit regime over the 2000-20 period.

The reduction in implied marginal tax subsidy rates in 2007 and 2008 is accounted for by the stepwise reduction of the volume-based and incremental R&D tax credit rates that apply to eligible R&D expenditure in **Spain**.

The less marked decline in the implied subsidy rates in 2016 and sustained thereafter is connected to the corporate income tax rate being cut from 28% to 25%.

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



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.

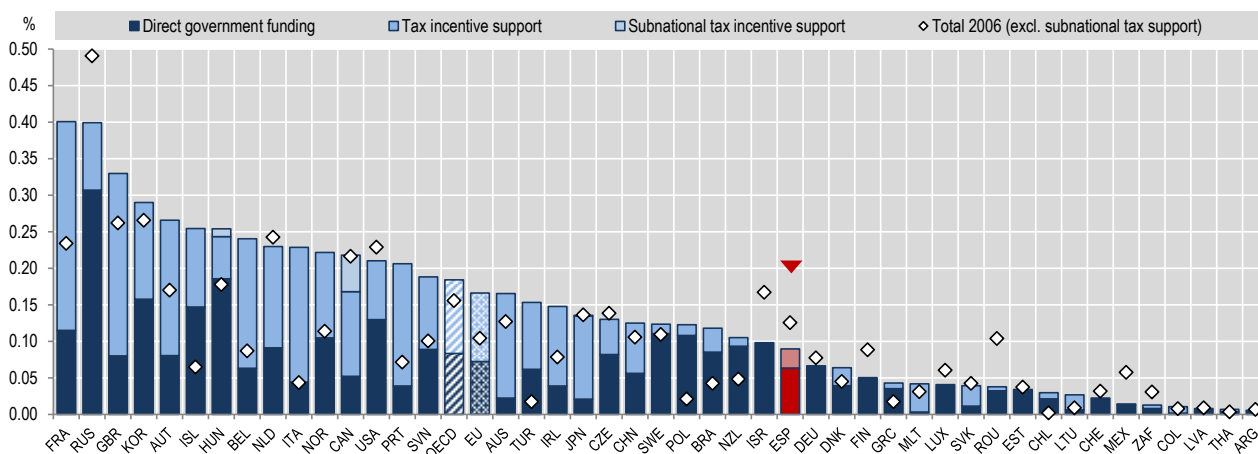
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Policy support for business R&D: the policy mix

In 2018, **Spain** is placed below the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.09% 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.

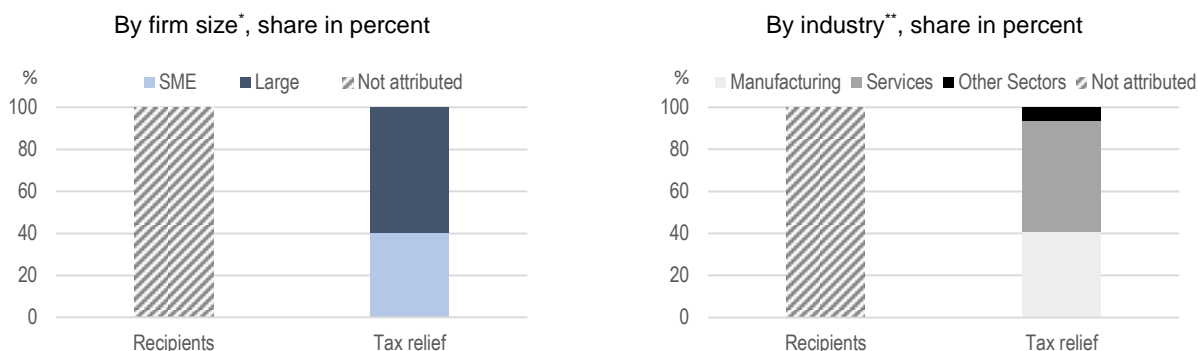
Key points:

- From 2006 to 2018, total government support for BERD as a percentage of GDP declined by 0.04 percentage points (this percentage increased until 2008 and declined thereafter) in **Spain**, while the OECD average increased by 0.03 percentage points.
- During this period, business R&D intensity in **Spain** increased marginally from 0.65% to 0.70%.
- In 2018, R&D tax incentives accounted for 29% of total government support for BERD in **Spain**.
- In contrast to its high notional R&D tax subsidy rate, the ratio of tax relief to BERD is 3.8% (among the lowest across countries offering R&D tax relief in 2018), implying potential to increase use among firms.

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, 2014



Note: Figures refer to the R&D&I tax credit. *SMEs are defined as firms with 1-249 employees and annual turnover not exceeding EUR 50 million or annual balance sheet not exceeding EUR 43 million. **Economic activity is classified based on NACE rev.2.

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

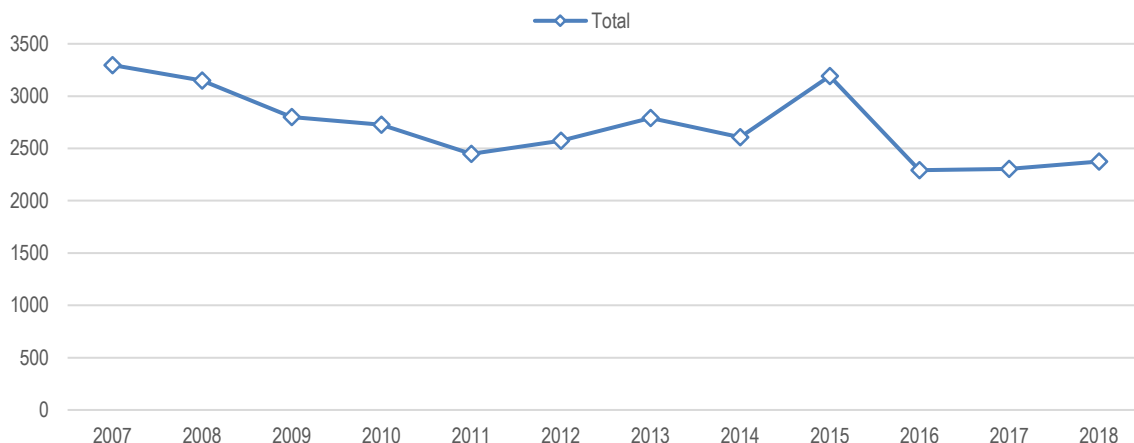
Key points:

- In **Spain**, the share of R&D tax support accounted for by SMEs amounted to around 40% in 2014 whereas 60% of R&D tax benefits were allocated to large firms.
- In 2014, firms in services accounted for 53% of R&D tax benefits in **Spain**, followed by firms in manufacturing with a share of 41%.
- Data on the number of R&D tax relief recipients by firm size or industry are currently not available.

Trends in the uptake of R&D tax incentives

Over the period 2007-2018 (the period for which relevant data are available), the total number of R&D tax relief recipients decreased in **Spain** by nearly 30%, from around 3 300 in 2007 to 2 380 in 2017, with a short-term increase in 2015 where close to 320 firms benefitted from R&D tax support.

Figure 5. Number of R&D tax relief recipients, Spain, 2007-2018



Note: Figures refer to R&D&I tax credit (2010-2018). Figures capture beneficiaries under Art.35 of the Corporation Tax Act but excludes those under Art.39. and thus provide a lower bound of the actual number of R&D tax relief recipients in Spain.

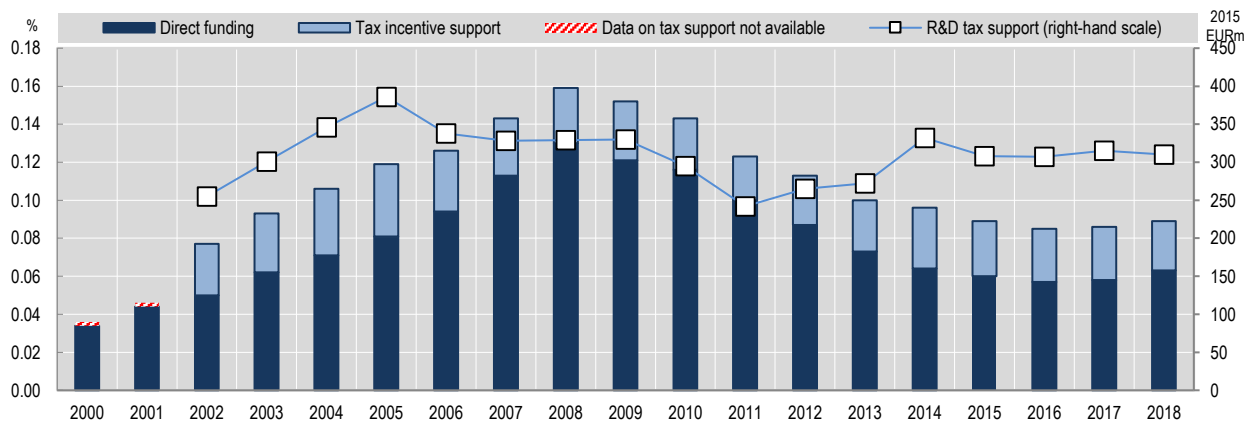
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

From 2002 to 2018, the size of and reliance on R&D tax support remained overall stable in **Spain**, with some fluctuations observable in its absolute and relative magnitude throughout that period.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Spain, 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 volume of R&D tax support (in 2015 prices) increased from 2002 to 2005, declined thereafter, especially after the 2008-09 crisis, reaching 242 million in 2011. It increased from 2012 to 2014, declined slightly in 2015 but remained fairly constant ever since, reaching EUR 310 million in 2018.
- As percentage of GDP, R&D tax support oscillated around 0.03% of GDP over the 2002-18 period.
- Direct funding of BERD reached its peak in 2008 (0.13% of GDP) and reverted to 0.06% in 2018 - the 2003 level of direct funding of BERD.
- The share of tax incentives in total government funding amounted to 35% in 2002. It reached a low of 18% in 2008 and increased from 2012 onwards to reach 29% in 2018.

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