R&D Tax Incentives: Sweden, 2020

Design of R&D tax relief provisions

Sweden provides R&D tax relief through a 19.59% exemption of employer's social security contributions.

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

	SSC exemption
Tax incentive	Partial exemption of employer social security contributions
Type of instrument	Volume-based
Eligible expenditures†	Labour costs
Headline rates (%)	19.59
Refund	Redeemable against employer social security contributions
Carry-over (years)	n.a.
Ceilings R&D tax relief	SSC deductions capped at SEK 450,000 per month and company (or SEK 2.76 million per year)* and SEK 919 239 per month for firms in a group

* The resulting SS contribution after the deduction must be at least equal to the old age pension contribution of 0.1021 of the salary.
1 SEK = 0.096 EUR, Q3 2020

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:

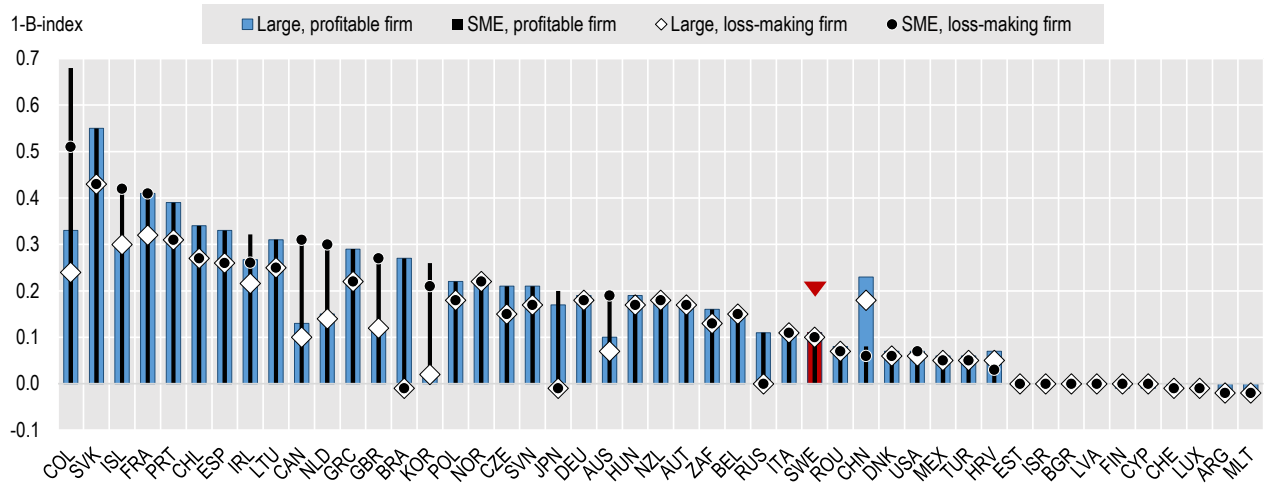
- Tax benefits are administered entirely through the social security contributions system, and are thus disconnected from the corporate tax liability of the firm.
- The value of SSC deductions is limited to SEK 2.76 million per company (group) and year.

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 R&D tax subsidy rate for SMEs and large firms in **Sweden** is estimated at 0.11 (0.10) in the profit (loss) scenarios. These subsidy rates are well below the OECD median for profitable SMEs (0.20) and large firms (0.18) and smaller than the OECD median for loss-making SMEs (0.17) and large firms (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: Sweden, 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, **Sweden** undertook **two changes** in its R&D tax relief provisions:

- From April 1, 2020 the rate of the partial exemption for employer social security contributions has been increased from 10% to 19.59%.
- From April 1, 2020, the ceiling for the partial exemption of employer social security contributions has been increased from 230 000 SEK to 450 000 SEK per month. For enterprise groups the ceiling has been increased from 230 000 SEK to 919 239 SEK per month for all enterprises in the group.

Neither of these policy changes were undertaken in response to the **COVID-19 crisis**.

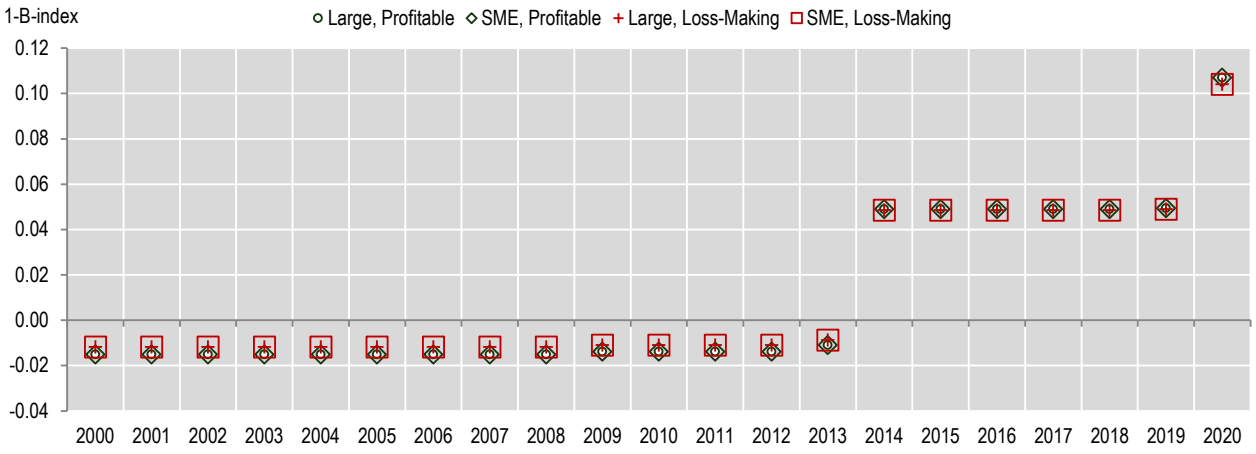
Trends in the generosity of R&D tax support

Sweden introduced R&D tax incentives for the first time in 2014 in the form of a partial exemption of employer social security contributions. With no full expensing of R&D capital expenditure or any other enhanced tax relief provisions in place until 2014, a negative marginal tax subsidy rate is estimated for both profit scenarios throughout the 2000-13 period. During this period, the step-wise reduction of the corporate income tax rate (from 28% to 26.3% in 2009 and to 22% in 2013) produced some minor increases in the R&D tax subsidy rate, due to the smaller weight placed on the non-availability of enhanced tax deductions. The value of allowances is directly link to the magnitude of the corporate income tax rate. In the case of loss-making firms, the subsidy rate is slightly higher in net present value terms due to the ability to carry over losses.

With no change in the rate of SSC exemption between 2014 and 2019, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remain constant at 0.05 throughout this period. Due to the refundable nature of the SSC exemption for R&D labour costs, the tax subsidy rates for profitable and loss-making firms coincide or are at least very close, given the comparatively large share of R&D labour costs) in total business R&D expenditure (on average around 60% across OECD countries). Following the increase of the rate of SSC exemption from 10% to 19.59% in 2020, the implied R&D tax subsidy rate estimated for SMEs and large firms increased from 0.05 (0.05) to 0.11 (0.10) in the profit (loss) case.

Figure 2. Implied tax subsidy rates on R&D expenditures: Sweden, 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.

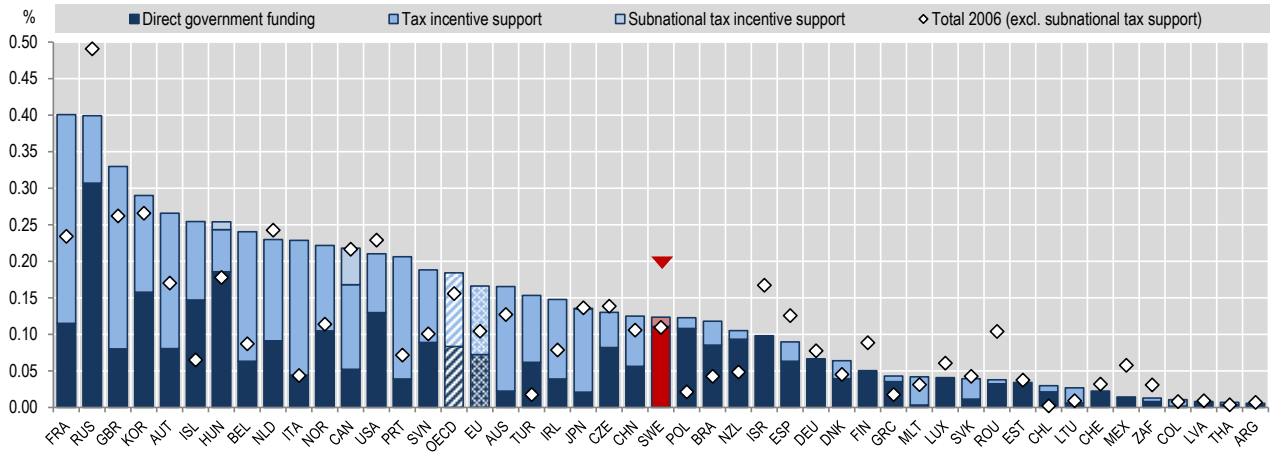
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Policy support for business R&D: the policy mix

In 2018, **Sweden** 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 0.12% 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:

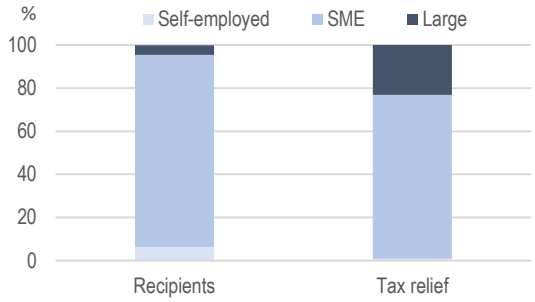
- From 2006 to 2018, government support for BERD as a percentage of GDP increased in **Sweden** by 0.01 percentage point (pp), while the OECD average increased by 0.03 pp.
- From 2006 to 2018, business R&D intensity in **Sweden** decreased from 2.60% to 2.36%.
- In 2018, R&D tax incentives accounted for 10% of total government support for BERD in **Sweden**.

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

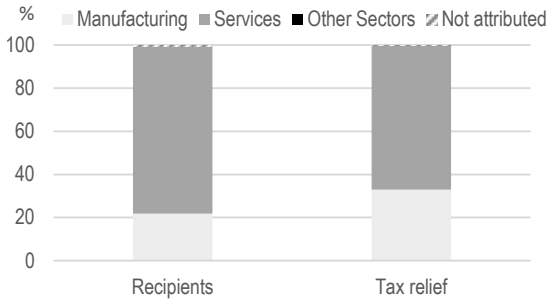
The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

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 Partial exemption of social security contributions. *SMEs are defined as firms with 10-249 employees. **Economic activity is classified based on NACE rev.2.

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

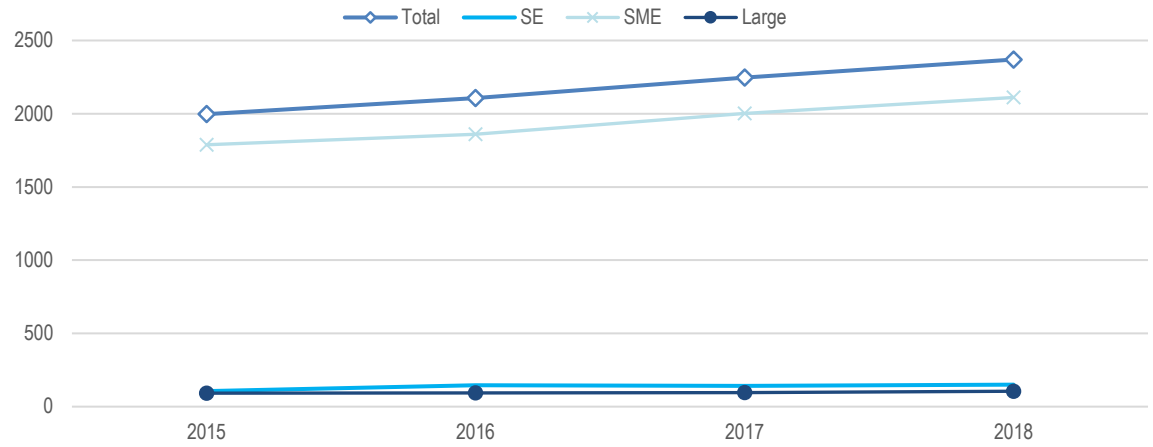
Key points:

- In **Sweden**, SMEs accounted for 89% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to around 76% in this year. 23% of R&D tax benefits were allocated to large firms, comprising 4% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in services represented around 77% of R&D tax relief recipients in **Sweden**, followed by firms in manufacturing with a share of 22%. The share of R&D tax benefits accounted for by the latter amounted to 33% in that year, while this share amounted to 67% in the case of firms in services.

Trends in the uptake of R&D tax incentives

Over the period 2015-2018, the number of R&D tax relief recipients steadily increased in **Sweden**, reaching 2 370 in 2018. This increase is in large parts attributable to SMEs which accounted for nearly 90% of R&D tax relief recipients in Sweden throughout these years. The number of large firms and self-employed receiving tax support stayed fairly constant over this period, oscillating around 100 and 10 recipients respectively.

Figure 5. Number of R&D tax relief recipients, Sweden, 2015-2018



Note: Figures refer to the Partial exemption of social security contributions.

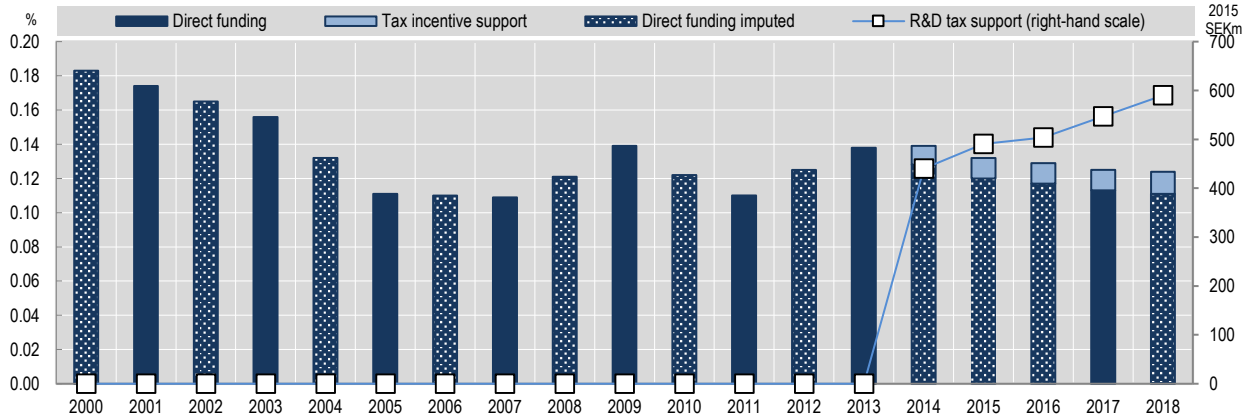
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, March 2021.

Trends in government support for business R&D

Sweden introduced R&D tax incentives in 2014. While the importance of R&D tax incentives increased in absolute terms ever since, their relative importance has remained fairly stable over the 2014-18 period.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Sweden, 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 (in 2015 prices) rose from SEK 440 million in 2014 to SEK 590 million in 2018.
- As percentage of GDP, R&D tax incentives accounted for 0.013% in 2018, similar to 2014 (0.011%).
- Direct funding of BERD, equivalent to 0.18% of GDP in 2000, experienced an irregular decline over the 2000-18 period and amounted to 0.11% in 2018.
- The share of R&D tax incentives in total government support for BERD increased slightly from 8% in 2014 to 10% in 2018.

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