

# R&D Tax Incentives: Lithuania, 2021

## Design of R&D tax relief provisions

Lithuania provides tax relief through a 200% allowance on the volume of eligible R&D expenditure.

**Table 1. Main design features of R&D tax incentives in Lithuania, 2021**

|                        | R&D tax allowance          |
|------------------------|----------------------------|
| Type of instrument*    | Volume-based               |
| Eligible expenditures† | Current                    |
| Headline rates         | 200                        |
| Refund                 | No                         |
| Carry-over (years)     | Indefinite (carry-forward) |
| Thresholds & ceilings  | No                         |

\* Lithuania also offers an accelerated depreciation of assets used in the process of R&D (straight line depreciation of machinery and equipment over a two-year period and buildings over a 8-year period).

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>, December 2021.

### Key features:

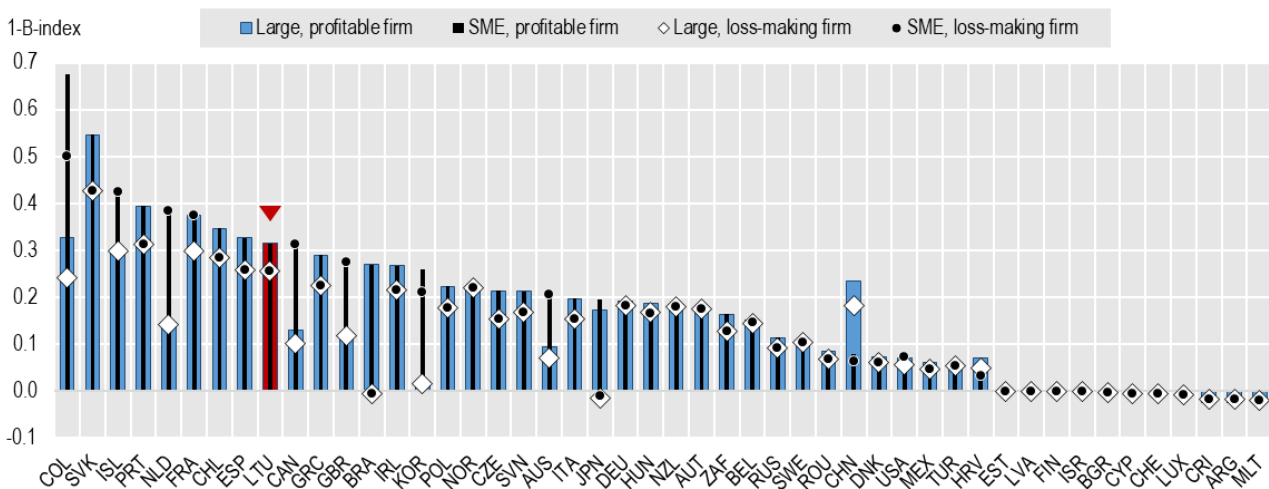
- In the case of insufficient tax liability, unused claims can be carried-forward indefinitely.
- No threshold or ceiling restricts the amount of eligible R&D expenditures or value of R&D tax relief.

## Generosity of R&D tax support in 2021

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 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Lithuania is estimated at 0.31 (0.25), well above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises equals 0.31 (0.25) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.17 (0.15). These estimates model the provisions for the R&D tax allowance and the accelerated depreciation for R&D capital.

**Figure 1. Implied tax subsidy rates on R&D expenditures: Lithuania, 2021**

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>, December 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.

Lithuania has not made any **changes** to the design of its two R&D tax relief provisions – the R&D tax allowance and accelerated depreciation provision for machinery and intangibles used in the context of R&D projects –, since their inception in the year 2008. Neither has Lithuania introduced any modifications to the administration and monitoring of R&D tax incentives since 2008.

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

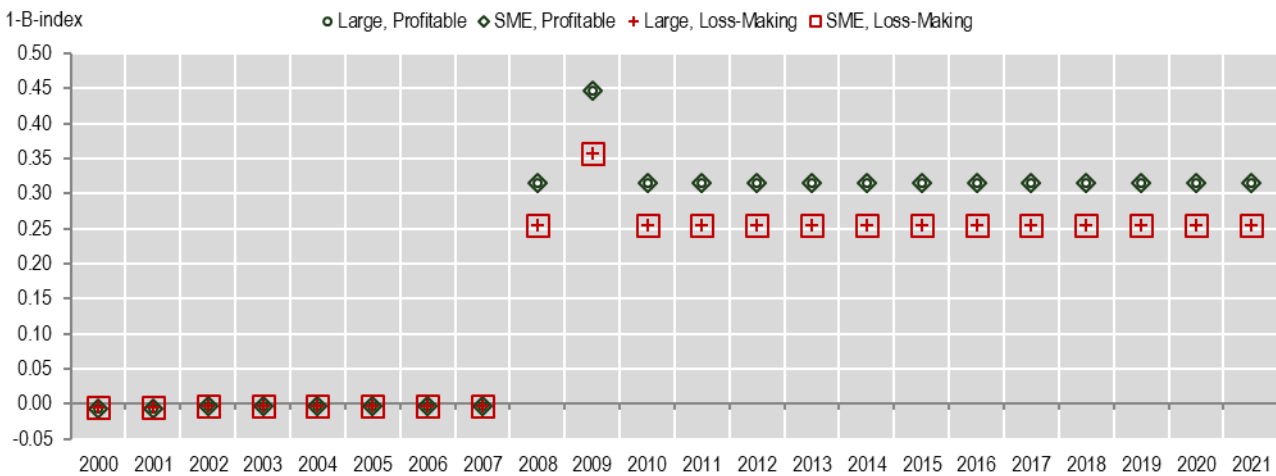
Since the introduction of R&D tax support in 2008 and with the exception of a temporary increase in 2009, the generosity of R&D tax incentives has effectively remained unchanged in **Lithuania** until 2020.

In 2009, the corporate income tax rate was temporarily lifted from 15% to 20%. Since the value of tax deductions are directly linked to the corporate income tax (CIT) rate, this led to a short-term increase in the implied marginal R&D tax subsidy rates estimated for SMEs and large firms in both profit scenarios.

Following the reduction of the CIT rate in 2015 back to its 2008 level, the implied R&D tax subsidy rate estimated for SMEs and large firms at 0.31 (0.25) in the profit (loss) case, remained constant throughout 2021.

**Figure 2. Implied tax subsidy rates on R&D expenditures: Lithuania, 2000-21**

1-B-Index, by firm size and profit scenario



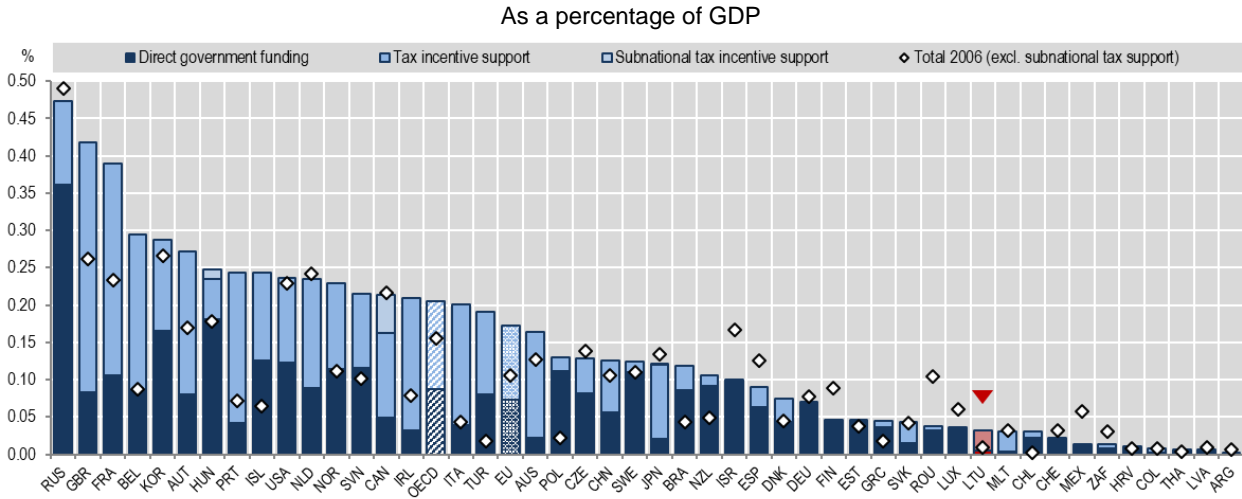
*Note:* Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting 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>, December 2021.

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

In 2019, **Lithuania** is placed among the lower tier of OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.03% of GDP.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (nearest year)**



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>, December 2021.

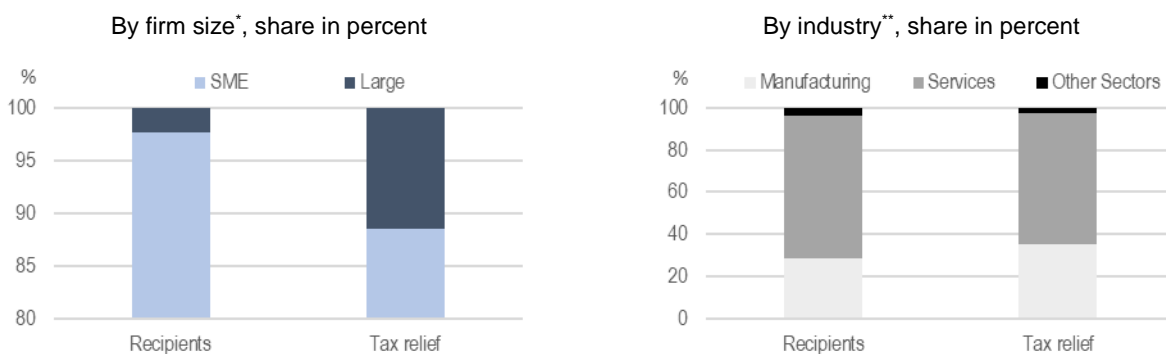
**Key points:**

- From 2006 to 2019, government support for BERD as a percentage of GDP increased in **Lithuania** by 0.02 percentage point (pp), while the OECD average increased by 0.05 pp.
- During this period, business R&D intensity in **Lithuania** increased from 0.22% to 0.43%.
- In 2019, R&D tax incentives accounted for 83% of total government support for BERD in **Lithuania**.

### 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, 2019**



Note: Figures refer to the R&D tax allowance. \*SMEs are defined as firms with 1-249 employees and that have an annual turnover no larger than EUR 50 million or an annual balance sheet no larger than EUR 43 million. \*\*Economic activity is classified based on NACE rev.2 (Manufacturing: Section C, Services: H, I, J, N, M, S, K. Other Sectors: remaining classes).

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

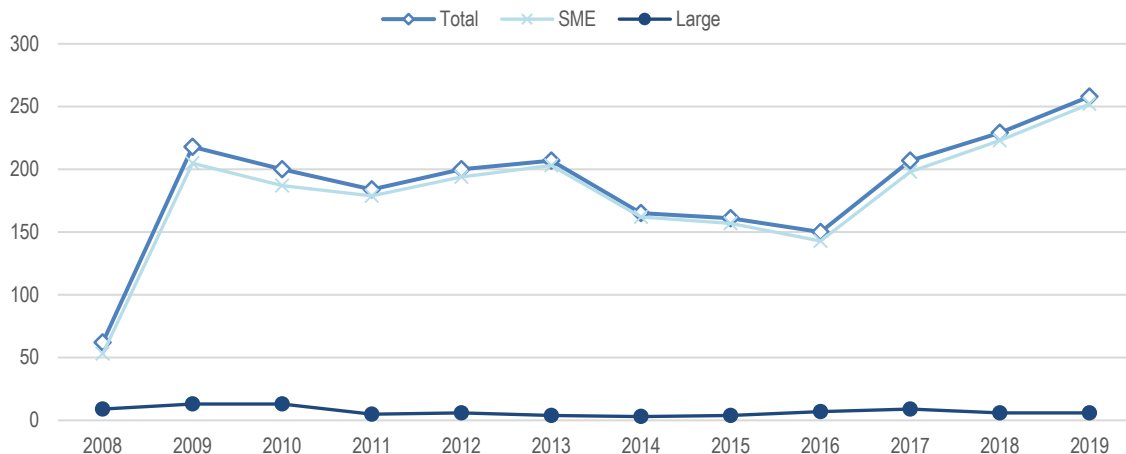
**Key points:**

- In **Lithuania**, SMEs accounted for 98% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to around 88% in this year. 12% of R&D tax benefits were allocated to large firms, comprising 2% of the population of R&D tax relief recipients in 2019.
- In 2019, firms in services represented around 68% of R&D tax relief recipients in **Lithuania**, followed by firms in manufacturing with a share of 28%. The share of R&D tax benefits accounted for by the latter amounted to 35% in that year, while this share amounted to 62% in the case of firms in services.

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

In 2009, the first year following the introduction of R&D tax support in **Lithuania**, the number of R&D tax relief recipients increased notably from around 60 to 220 recipients. The number of R&D tax relief recipients oscillated around 200 recipients thereafter, only interrupted by a short-term decline in the 2014-16 period, reaching around 260 in 2019. The changes in the number of R&D tax relief recipients are primarily driven by SMEs. Over the 2008-19 period, SMEs accounted for around 95% of R&D tax relief recipients in **Lithuania**.

**Figure 5. Number of R&D tax relief recipients, Lithuania, 2008-2019**



Note: Figures refer to the R&D tax allowance.

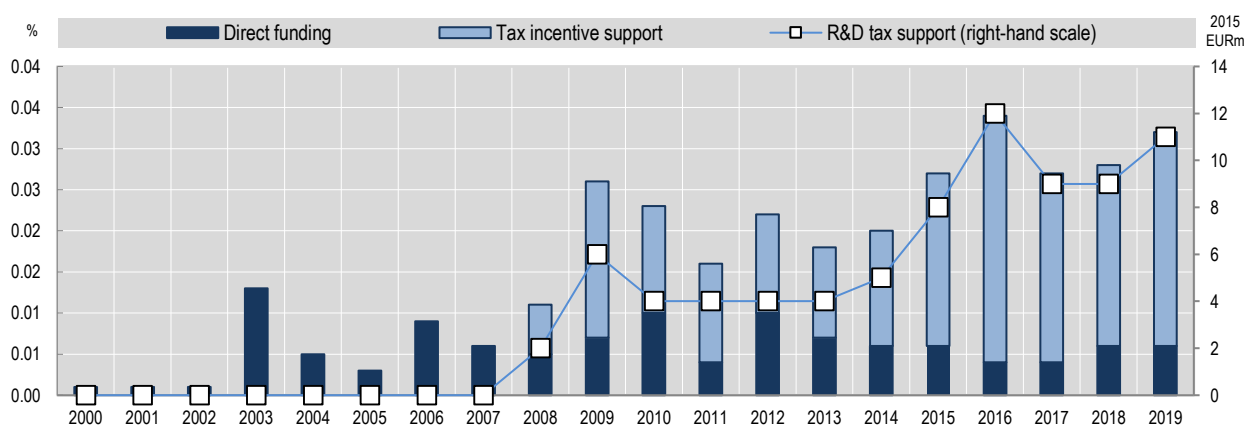
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

## Trends in government support for business R&D

Since the introduction of an R&D tax allowance in 2008, the importance of R&D tax incentives has increased in **Lithuania**, both in absolute and relative terms.

**Figure 6. Direct funding of business R&D and tax incentives for R&D, Lithuania, 2000-19**

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



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

- The cost of government tax relief for R&D rose (in 2015 prices) from EUR 2 million in 2008 to 11 million in 2019. It experienced a sharp increase in 2009 and an immediate decline in 2010, following changes in the CIT rate, and a marked increase again starting in 2013, driven by a significant increase in BERD.
- As percentage of GDP, R&D tax support increased from 0.006% to 0.03% of GDP during 2008-19.
- Direct funding of BERD oscillated between 0.001% and 0.01% of GDP during the same years, amounting to 0.006% of GDP in 2019.
- The share of tax incentives in total government support increased from 51% in 2008 to 83% in 2019.

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