

R&D Tax Incentives: Portugal, 2021

Design of R&D tax relief provisions

Portugal provides tax relief through a hybrid R&D tax credit. Start-ups enjoy an enhanced credit rate on R&D volumes as long as they have not yet made use of the incremental tax offset.

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

		SIFIDE - II	
Tax incentive		Tax credit	
Type of instrument		Hybrid (volume-based and incremental)	
Eligible expenditures[†]		Current, machinery & equipment, intangibles	
Headline rates (%)		Volume: 32.5, (47.5 for start-ups*)	Increment (on top of volume): 50
Refund		No	
Carry-over (years)		8 (carry-forward)	
Thresholds	Base amount	Average R&D expenditures in the previous two fiscal years	
Ceilings	R&D expenditure	Volume: No ceiling	Maximum increment: EUR 1.5 million

*: IRC taxpayers that are SMEs according to the definition given in article 2 of Decree-Law 372/2007 of 6 November, which have not yet completed two exercises and that did not benefit from the incremental rate set. Portugal also offers 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>, December 2021.

Key features:

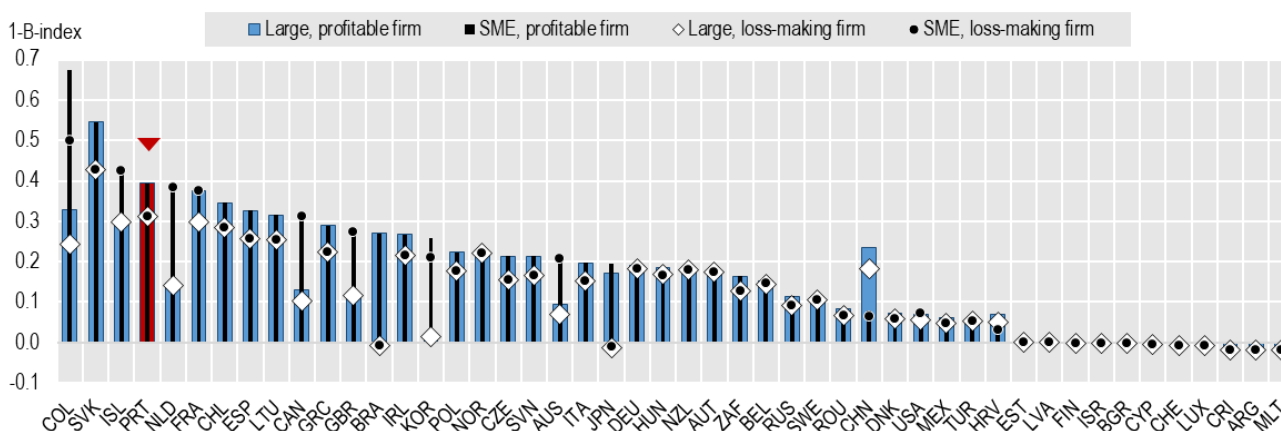
- In the case of insufficient tax liability, unused credits can be carried-forward for 8 years.
- The base amount above which R&D expenditures qualify for the incremental tax credit is defined as average amount of qualifying R&D expenditures in the two previous fiscal years.
- Incremental R&D expenses are capped at EUR 1.5 million.

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 Portugal is estimated at 0.39 (0.31), well above the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises is 0.39 (0.31) in the profit (loss)-making scenario, substantially larger than the OECD median of 0.17 (0.15). Both the volume-based and the incremental components are modelled.

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

In 2021, **Portugal** extended the SIFIDE-II tax credit until 2025. The latest change in the administration of the Portuguese R&D tax credit occurred in 2020 **in response to the COVID-19 crisis**. In that year, the deadline for submitting applications for the SIFIDE II tax credit was indefinitely suspended until the end of the COVID State of Emergency, as declared by Decree-Law.

Trends in the generosity of R&D tax support

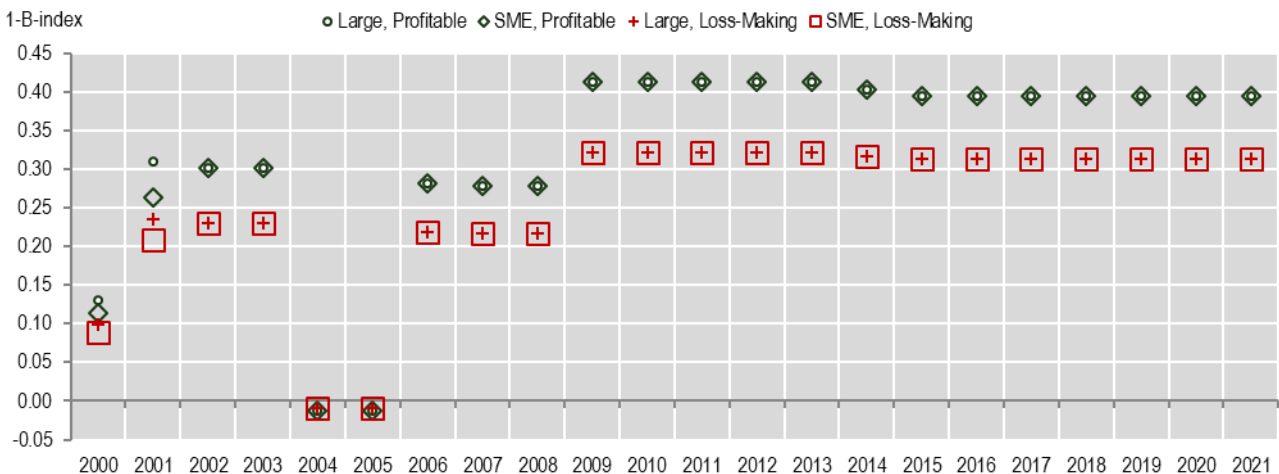
The generosity of R&D tax support varied significantly in **Portugal** over the 2000-21 period across the four scenarios considered. In 2002, the volume-based and incremental rates of the SIFIDE-I tax credit rate were raised from 8% to 20% and 30% to 50% respectively. This led to a discrete jump in the implied R&D tax subsidy rates estimated. With the equalisation of CIT rates for SMEs and large firms, the R&D tax subsidy rates for SMEs coincide with those of large firms from 2002 onwards.

Following the temporary suspension of the R&D tax credit in 2004-05, the tax credit was reintroduced in 2006, at the same volume-based and incremental rates. In 2009, the volume-based rate of SIFIDE-II was raised from 20% to 32.5%, leading to another marked increase in the estimated R&D tax subsidy rates. With the step-wise reduction in the corporate income tax rate from 26.5% to 24.5% in 2014, down to 22.5% in 2015, marginal subsidy rates decline slightly as the value of baseline tax deductions, linked to the CIT rate, decreases.

If the ceiling on the incremental part of the SIFIDE is considered in the modelling of R&D tax subsidy rates, the rate for SMEs and large firms in 2021 drops from 0.39 (0.31) to 0.38 (0.30) in the profit (loss) case.

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

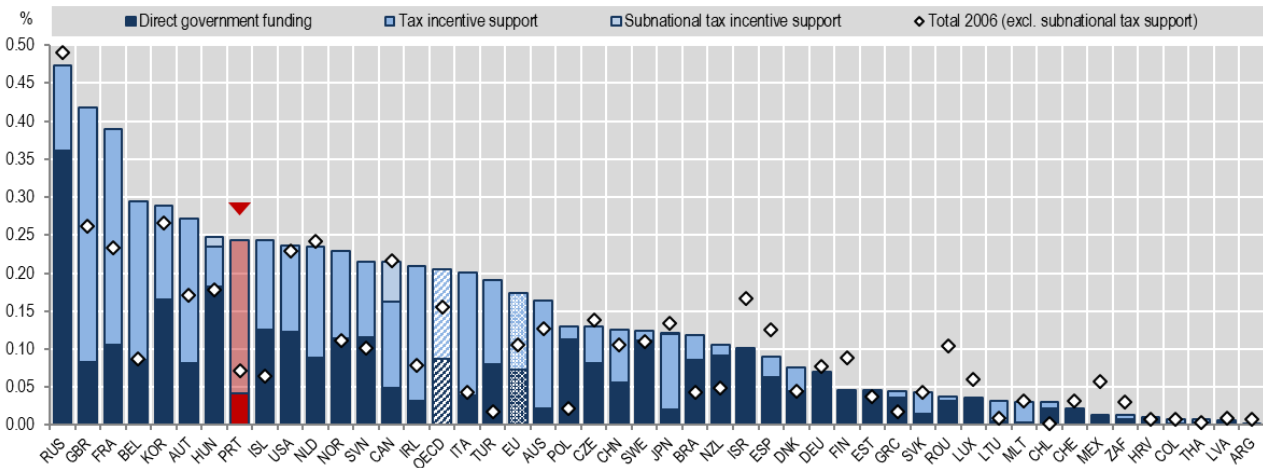
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

Policy support for business R&D: the policy mix

In 2019, **Portugal** is placed above the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.24% of GDP.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (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>, December 2021.

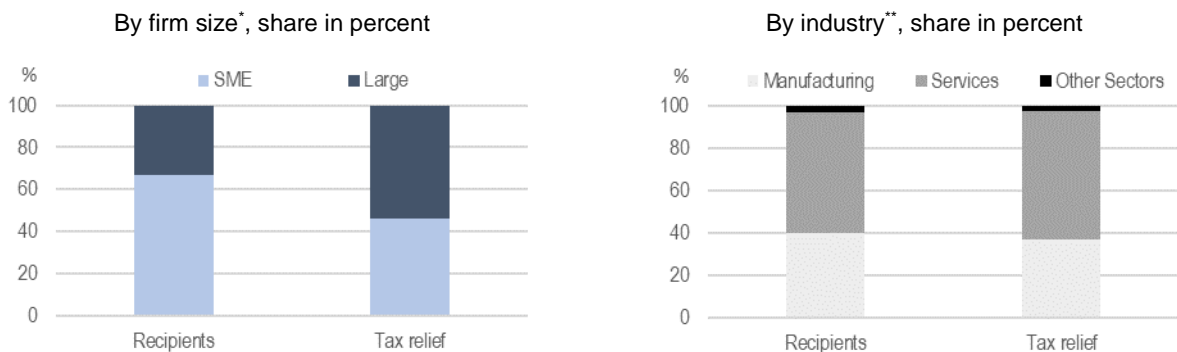
Key points:

- From 2006 to 2019, government support for BERD as a percentage of GDP increased in **Portugal** by 0.17 percentage point (pp), while the OECD average increased by 0.05 pp.
- During this period, business R&D intensity in the **Portugal** increased from 0.44% to 0.73%.
- In 2019, R&D tax incentives accounted for 83% of total government support for BERD in **Portugal**.

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 SIFIDE tax credit. *SMEs are defined as firms with 1-249 employees. **Economic activity is classified based on NACE.

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

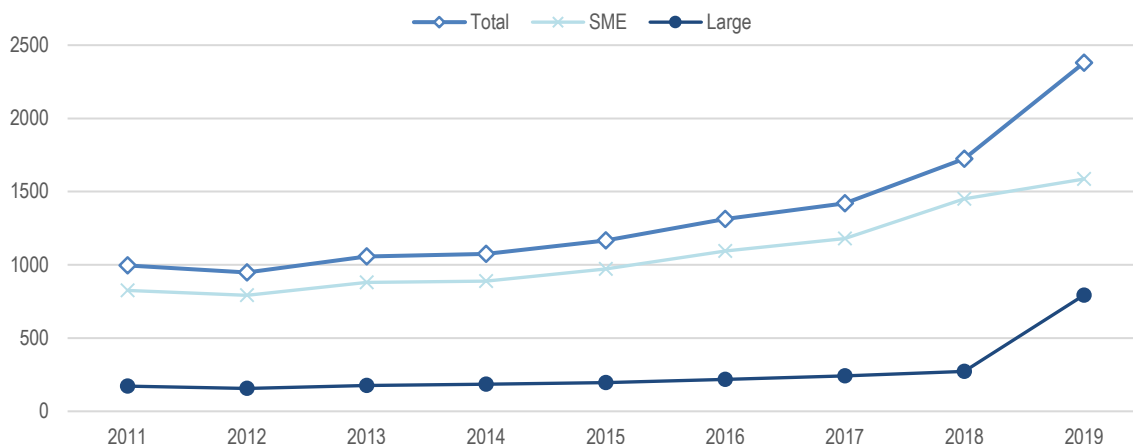
Key points:

- In **Portugal**, SMEs accounted for 67% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to around 46% in this year. 54% of R&D tax benefits were allocated to large firms, comprising 33% of the population of R&D tax relief recipients in 2019.
- In 2019, firms in services represented 57% of R&D tax relief recipients in **Portugal**, followed by firms in manufacturing with a share of 40%. The share of R&D tax benefits accounted by manufacturing firms amounted to 37% in that year, while 61% of tax benefits were allocated to firms in services.

Trends in the uptake of R&D tax incentives

Over the period 2011-2019 (for which relevant data are available), the number of R&D tax relief recipients increased steadily in **Portugal**, from close to 1 000 recipients in 2011 to around 1 700 recipients in 2018 with a sharp increase to around 2380 recipients in 2019. With the exception of the recent spike in 2019, primarily driven by large firms, changes in the number of R&D tax relief recipients over time are mainly attributable to SMEs which accounted for more than 80% of R&D tax relief recipients in **Portugal** over the 2011-18 period.

Figure 5. Number of R&D tax relief recipients, Portugal, 2011-2019



Note: Figures refer to the SIFIDE tax credit.

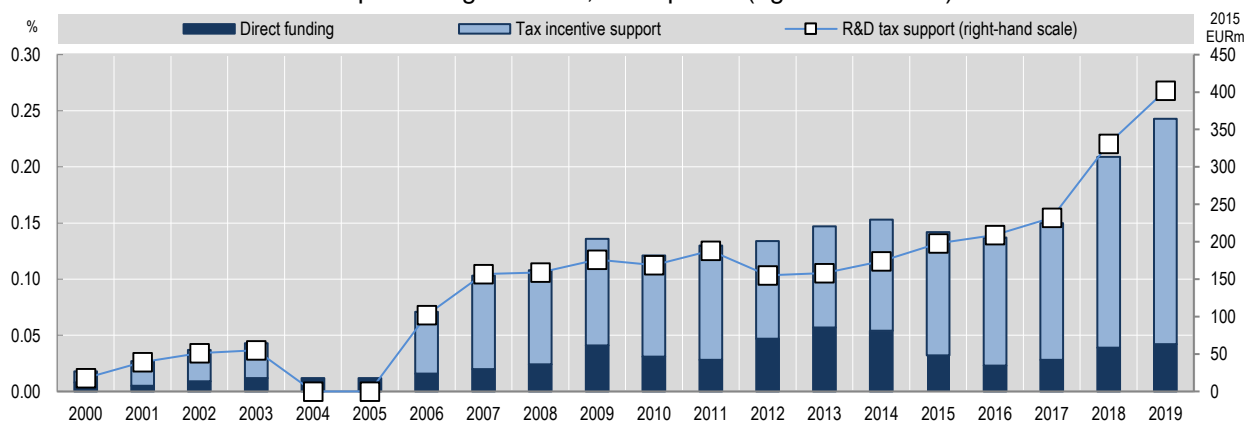
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

Trends in government support for business R&D

In **Portugal**, the cost of government tax support for R&D rose (in 2015 prices) from EUR 18 million in 2000 to EUR 402 million in 2019. This trend was only interrupted by the temporary suspension of the SIFIDE tax credit in 2004 and 2005.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Portugal, 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.

- As percentage of GDP, tax support increased from 0.06% of GDP in 2006 - the year in which the SIFIDE tax credit was reintroduced - to 0.20% in 2019.
- Direct funding of BERD rose from 0.016% of GDP to 0.042% over the 2006-19 period, increasing steadily from 2016 onwards where the lowest level of direct support in the last ten years was reached.
- The share of R&D tax incentives in total government support fluctuated significantly over the 2000-19 period, amounting to 55% in 2000, 0% in 2004 and 2005, 65% in 2012 and 83% in 2019.

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