

# R&D Tax Incentives: Russian Federation, 2021

## Design of R&D tax relief provisions

The **Russian Federation** provides R&D tax relief through a volume-based R&D tax allowance and an R&D tax credit (VAT and property tax exemption).

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

	R&D tax allowance	R&D tax credit (VAT and property tax exemption)
Type of instrument	Volume-based	Volume-based
Eligible expenditures <sup>†</sup>	Current, depreciation (machinery and equipment)	Current (non-labour related), machinery and equipment, depreciation (buildings), intangibles
Headline rates (%)	50	100 or 50*
Refund	No	No
Carry-over (years)	Indefinite carry-forward	No
Ceiling	R&D tax relief	No
		VAT and property tax liability

<sup>†</sup>The Russian Federation also offers an accelerated depreciation of machinery and equipment used in the process of R&D (straight-line over 2 years) and for buildings (straight-line over ten years). \*100% or 50% VAT exemption (reduction of VAT rate from 20% to 0% or 10%) depending on activity and type of good; partial to full exemption of property tax.

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:

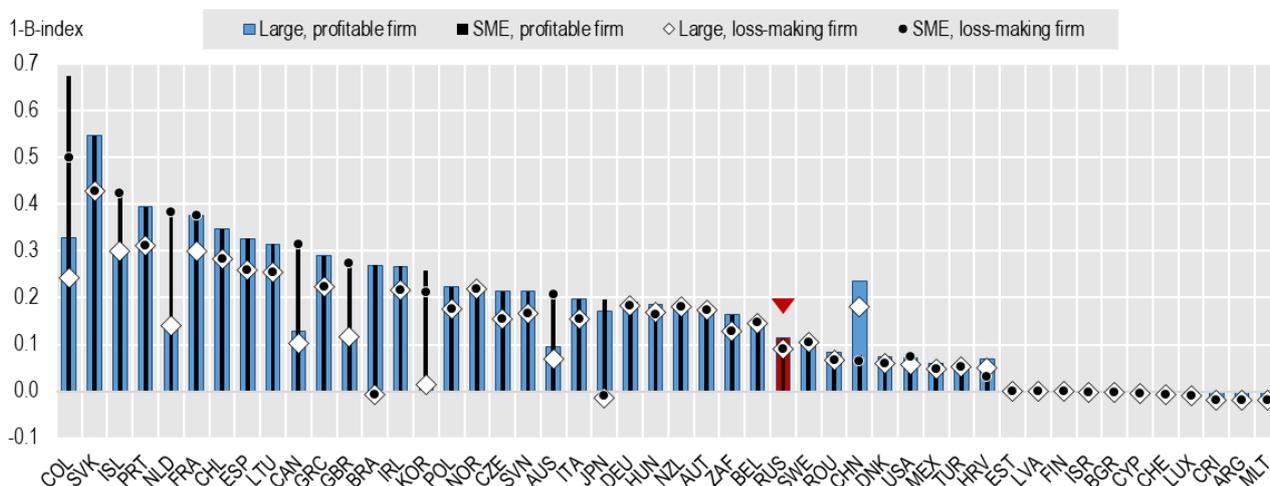
- Under both schemes, unused credits are not refundable in case of insufficient tax liability. In the case of the R&D tax allowance, unused tax deductions can be carried forward indefinitely in line with the general rules for tax loss carry-forwards.
- No upper ceiling applies to the amount of qualifying R&D expenditure or value of R&D tax relief under the R&D tax allowance. The value of the R&D tax credit is limited to the VAT and property tax liability in the reporting period.

## 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 the **Russian Federation** is estimated at 0.11 (0.09), well below the OECD median of 0.20 (0.18). The tax subsidy rate for large firms is equal to 0.11 (0.09) in the profit (loss) case, smaller than the OECD median of 0.17 (0.15). These estimates focus on modelling the provisions for corporate income tax offsets - the R&D tax allowance and the accelerated depreciation of R&D capital expenditure.

**Figure 1. Implied tax subsidy rates on R&D expenditures: Russian Federation, 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.

The Russian Federation **did not undertake any changes** in the design of its R&D tax relief provisions since the introduction of R&D tax support in the year 2009.

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

Since the introduction of an R&D tax allowance and accelerated depreciation provision for R&D capital in 2009, the generosity of R&D tax incentives has remained stable in the **Russian Federation** across the four scenarios considered. The absence of any enhanced tax relief provisions in place until 2009 implies a negative marginal tax subsidy rate in both profit scenarios. This subsidy rate is slightly higher for loss-making firms due to their ability to carry over losses.

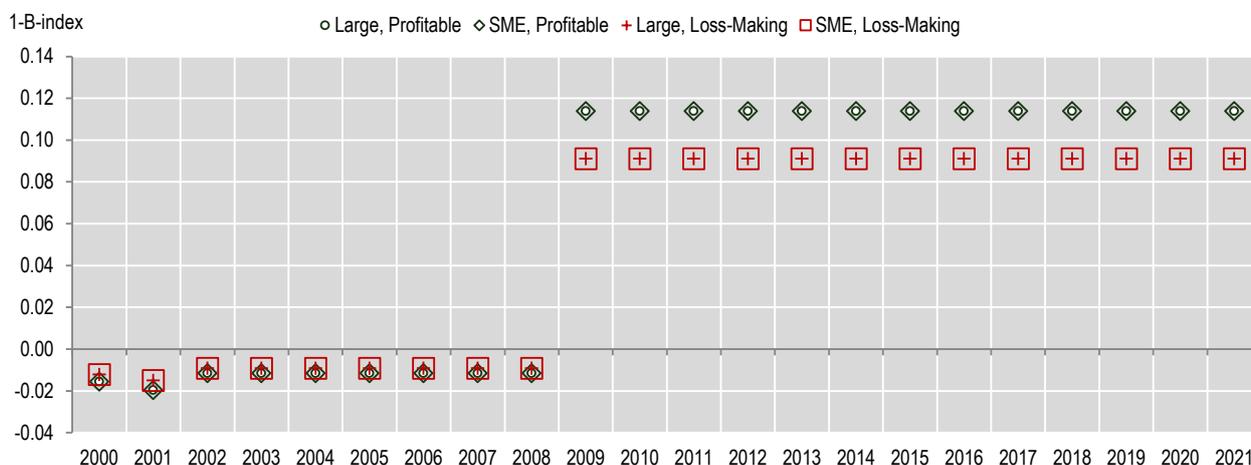
With the reduction of the corporate income tax rate from 43% to 24% in 2003, implied R&D tax subsidy rates increase slightly, owing to the smaller weight that is placed on the non-availability of enhanced tax deductions. The value of allowances is directly linked to the magnitude of the corporate income tax rate.

With no change in this rate and the rate of the tax allowance between 2009 and 2021, the implied R&D tax subsidy rates estimated for profitable SMEs and large firms remained constant at 0.11 throughout this period.

While the **Russian Federation** provides no refund option for firms in a loss-making position, such firms can carry-forward unused tax deductions indefinitely, leading to slighter reduced implied tax subsidy rates for SMEs and large firms in the loss (0.09) vis-à-vis profit (0.11) making scenario.

**Figure 2. Implied tax subsidy rates on R&D expenditures: Russian Federation, 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.

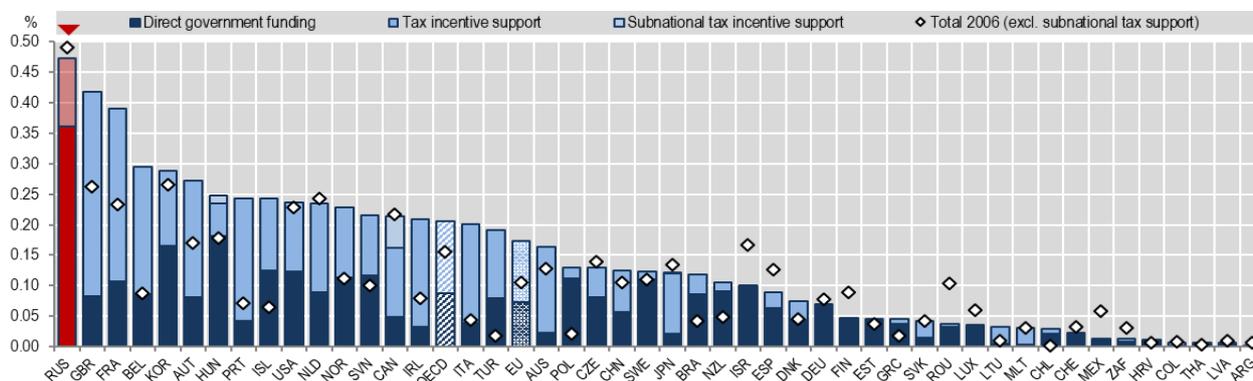
*Source:* OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

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

In 2019, the **Russian Federation** ranks first among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.47% of GDP. This is over twice as much as the equivalent figure for the entire OECD area.

**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:

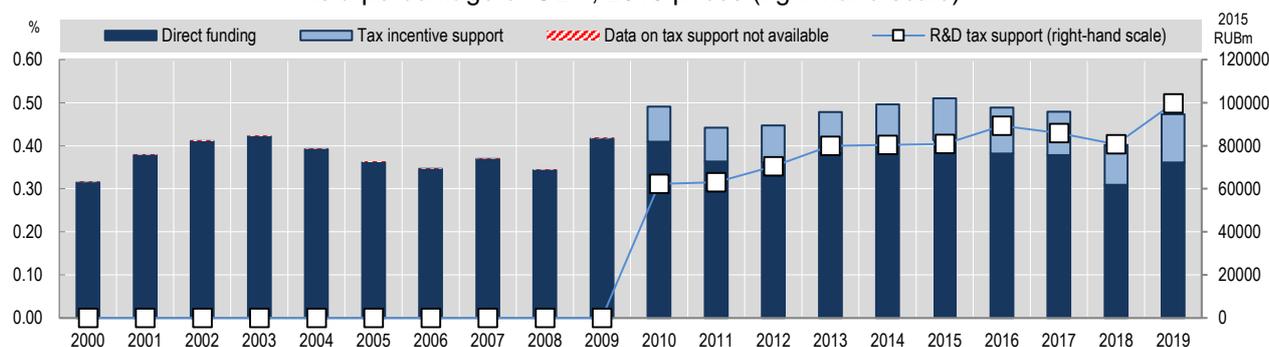
- From 2010 to 2019, total support for BERD as a percentage of GDP decreased in the **Russian Federation** by 0.02 percentage point (pp), while the OECD average (2006-19) increased by 0.05 pp.
- In this period, business R&D intensity in the **Russian Federation** dropped slightly from 0.64% to 0.63%.
- In 2019, R&D tax incentives accounted for 24% of total government support for BERD.

## Trends in government support for business R&D

Between 2010 and 2019, the importance of tax incentives increased in the **Russian Federation**<sup>1</sup>, both in absolute and relative terms. The cost of government tax support for R&D rose (in 2015 prices) from RUB 62 245 million in 2010 to RUB 99 656 million in 2019 (1 RUB = 0.012 EUR, Q3 2021).

**Figure 4. Direct funding of business R&D and tax incentives for R&D, Russian Federation, 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 0.08% of GDP in 2010 to 0.11% in 2019.
- Direct funding of BERD decreased from 0.41% of GDP in 2010 to 0.36% in 2019.
- The share of tax incentives in total government support grew from 17% in 2010 to 24% in 2019.

Please cite this note as: OECD (2021). "R&D Tax Incentives: Russian Federation, 2021", [www.oecd.org/sti/rd-tax-stats-russian-federation.pdf](http://www.oecd.org/sti/rd-tax-stats-russian-federation.pdf), Directorate for Science, Technology and Innovation, December 2021.

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<sup>1</sup> Figures for 2000-18, based on data published by the Ministry of Finance of the Russian Federation, refer to the R&D tax allowance, accelerated depreciation provision for R&D capital and the R&D tax credit. The R&D tax credit covers value-added tax exemptions on R&D and property tax credits for national R&D centres and organisations implementing state-approved R&D projects. R&D tax allowance estimates were adjusted to reflect only the value of the enhanced 50% tax deduction and avoid the inclusion of baseline tax deductions. The estimates for the VAT exemption, available to business and non-business entities performing R&D, were adjusted, based on the average percentage of GERD performed by business in the Russian Federation from 2010 to 2016, to reflect only tax relief to business.