

# R&D Tax Incentives: Spain, 2021

## 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, 2021

Tax incentive****	Tax deductions for R&D*		Social security exemption**
Type of instrument	Hybrid (volume-based and incremental)		SSC exemption
Eligible expenditures†	Current, Machinery & Equipment (ME), intangibles		Volume-based
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%, for fiscal years 2020 and 2021, this rate is temporarily raised to 15% for large firms and 50% for SMEs for expenses in technological innovation activities aiming at new or relevant improvements in production processes in the value chain of the automotive industry in Spain; 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>, December 2021.

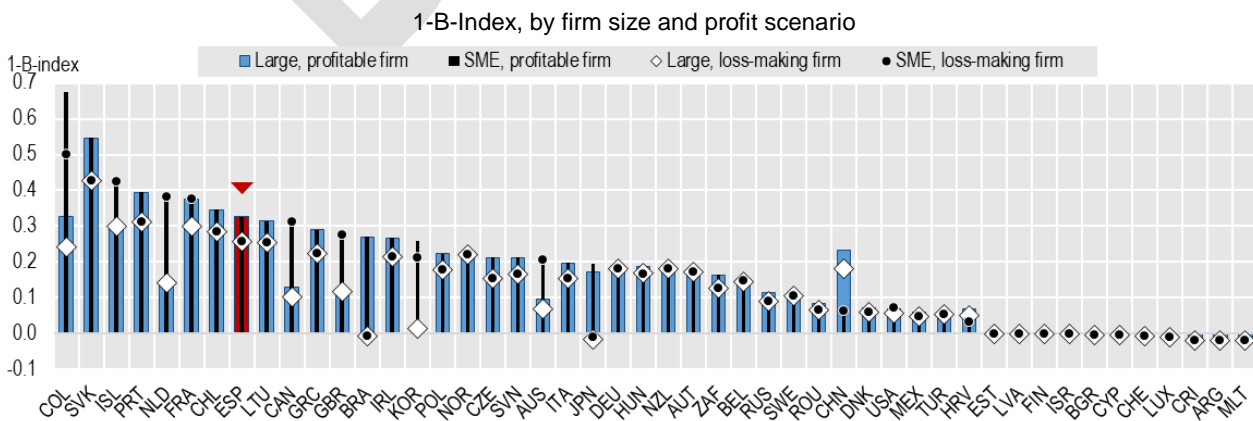
### Key features:

- 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.

## Generosity of R&D tax support in 2021

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 2021, 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, 2021



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.

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 **2021**, **Spain did not** undertake **any changes** in its R&D tax relief provisions. The **latest change** in the design of the R&D&I tax credit in **Spain** occurred in **2020**:

- **In response to the COVID-19 crisis**, the rate of the tax credit for SMEs was 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 (Article 7 of Royal Decree Law 23/2020, of June 23, modified by Royal Decree Law 34/2020, of November 17) applies to the fiscal years 2020 and 2021.

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

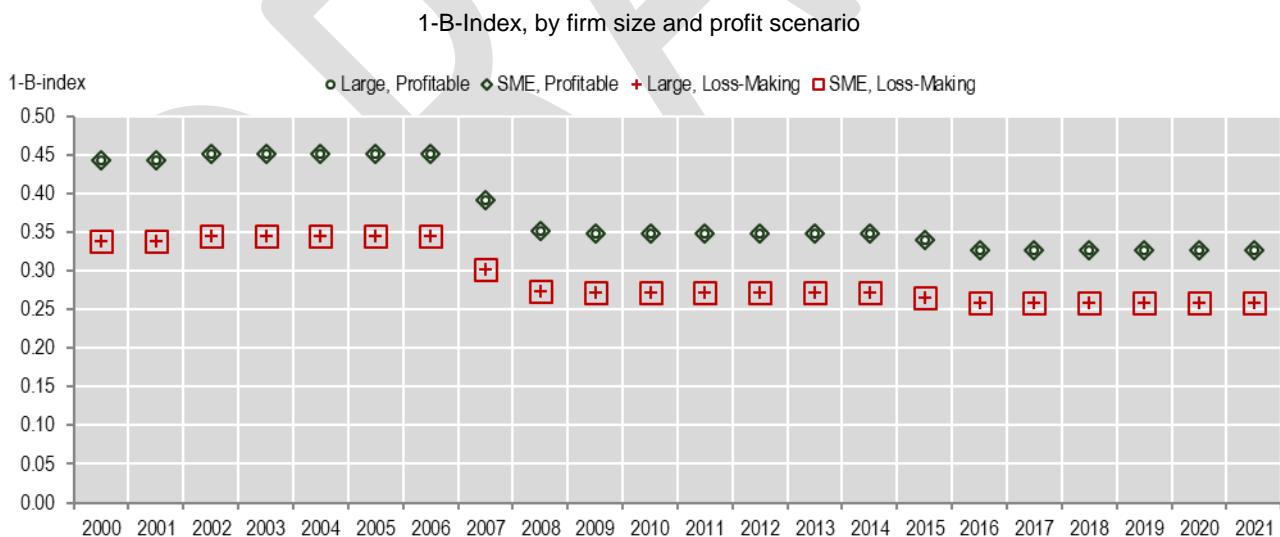
**Spain** offers in 2021 one of the most generous R&D tax incentive provisions among OECD countries and partner economies, despite the decline in the generosity of the R&D tax credit regime over the 2000-21 period.

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%.

With no further changes in the design of the R&D tax credit or adjustments in the corporate income tax rate, affecting the value of baseline tax deductions, implied marginal R&D tax subsidy rates stay constant from 2016 to 2021 across the four scenarios considered.

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



*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.

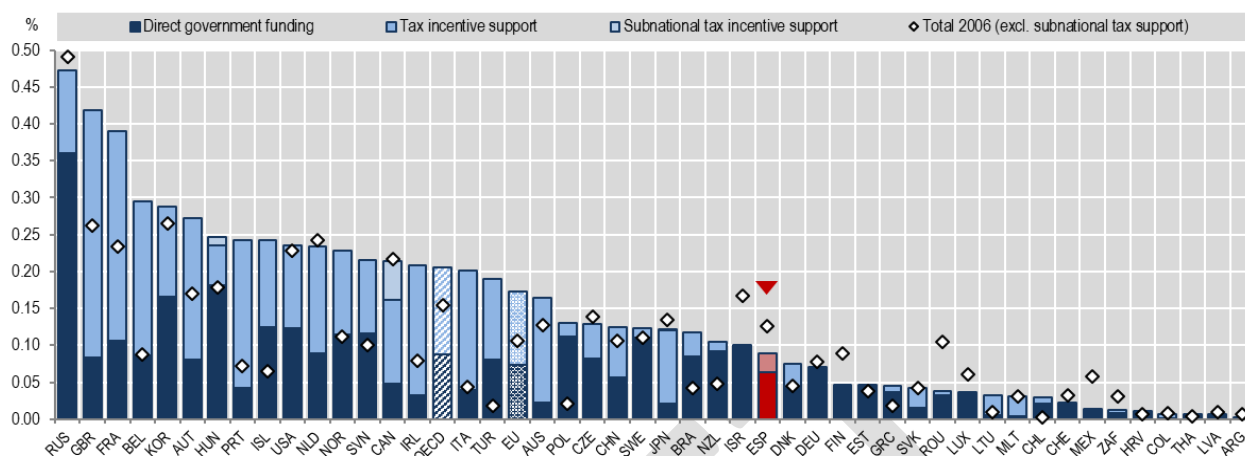
*Source:* OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

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

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 in 2018 (latest figure available).

**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.

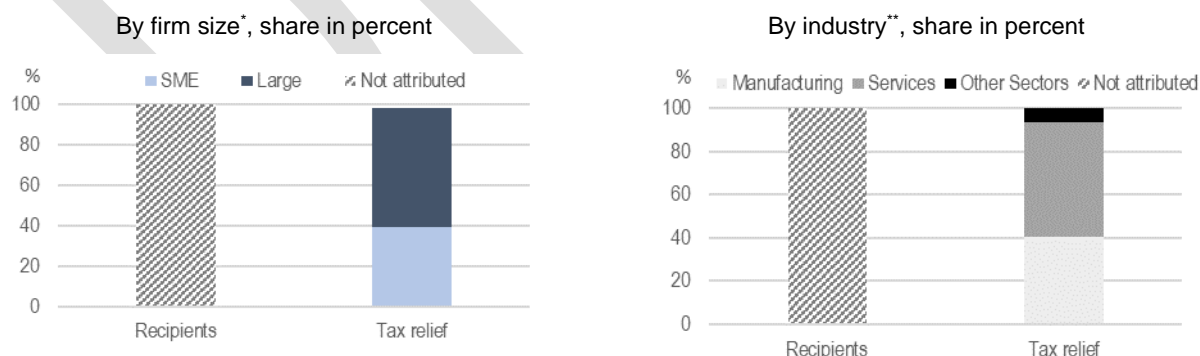
### Key points:

- From 2006 to 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 (2006-19) increased by 0.05 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>, December 2021.

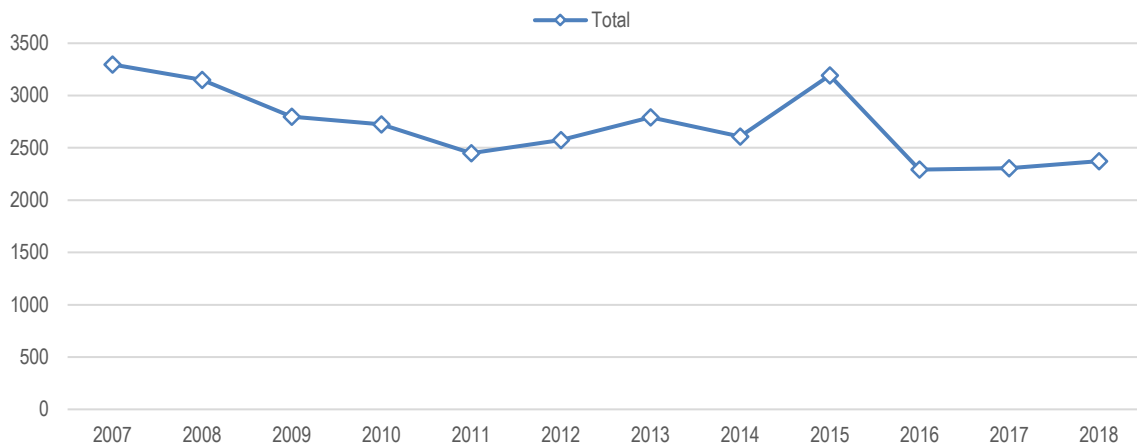
### Key points:

- 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 2018, with a short-term increase in 2015 where close to 600 more 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). From 2014 onwards, 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.

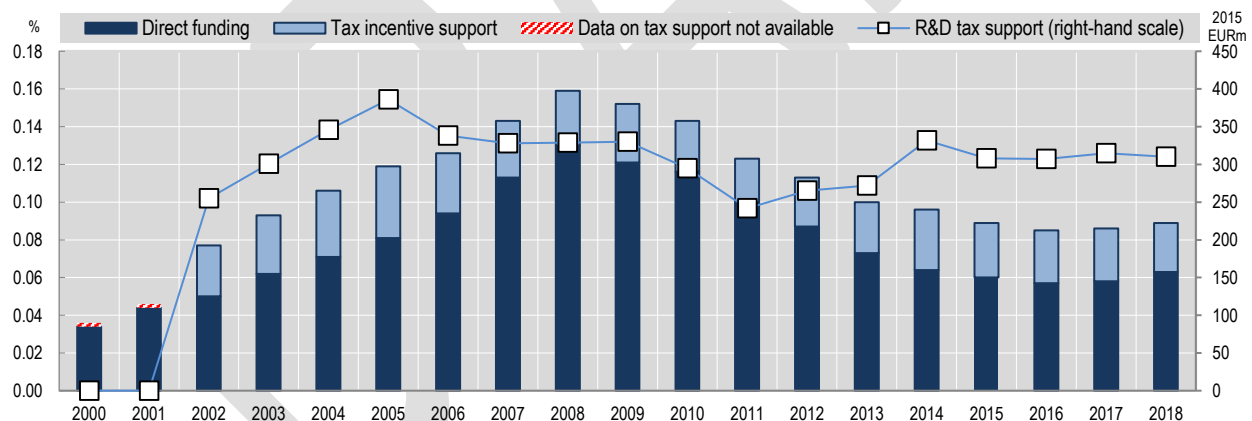
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

## 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/rntax>, December 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 0.07% in 2019 - the 2004 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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