

PRESS RELEASE
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Evaluation of the deduction for RD&I within the Tax Benefits Study

AIReF PROPOSES CHANGES TO THE DEDUCTION FOR RD&I TO IMPROVE ITS EFFICIENCY AND TRANSPARENCY

- The Independent Authority for Fiscal Responsibility concludes that the incentive encourages investment in RD&I, but notes the wide gap between the incentive's potential and its actual effectiveness
- It proposes setting up a quick and semi-automatic RD&I accreditation mechanism for companies whose RD&I investment does not exceed a certain threshold
- It also suggests removing some of the requirements to benefit from the optional regime established in 2014 and thus improve the appeal of the incentive to SMEs
- AIReF is in favour of encouraging transparency and publishing the list of legal entities benefiting from the incentive
- It proposes increasing the requirements for beneficiary companies to report on the characteristics and composition of R&D spending and the results of innovation in order to improve evaluation
- It proposes analysing the tax benefit together with the other policies of direct transfers and subsidies in support of RD&I

The Independent Authority for Fiscal Responsibility (AIReF) today published on its website the evaluation of the Corporate Income Tax deduction for RD&I, which is part of the Tax Benefit study of the second phase of the Spending Review. The difficulty in accessing data as a result of the State of Alarm interrupted and put back the process of evaluating this incentive. In the evaluation, AIReF proposes changes to the deduction to improve its actual effectiveness.

This tax benefit consists of a deduction of 25% of expenses allocated to research and development (which can be raised to 42% for research staff expenses) and 12% of expenses allocated to innovation, subject to certain maximum limits.

In the evaluation, AIReF notes that Spain has a level of investment in RD&I below the average of peer countries and that, unlike these countries, investment in RD&I fell during the recessionary period between 2008 and 2015. In addition, the level of innovation of small companies, which account for a high proportion of Spanish companies, is significantly lower than that in peer countries.



The benefit entails an accrued tax cost of €1.1bn, although the actual cost applied in each year is €300m. According to AIReF's evaluation, this difference is due to the importance of the limits to the deduction or a lack of sufficient tax payable to apply the deduction. This leads to a gap between the potential effectiveness and the actual effectiveness of the tax benefit and generates significant tax credits for future application.

Since 2014, there has been an optional regime, which mainly favours SMEs and newly-created companies, that aims to bring the regulatory effectiveness closer to the tax incentive's effectiveness by allowing the deduction to be reimbursed and the limits to be exceeded.

From the point of view of an international comparison, the tax benefit for RD&I has a noteworthy potential effectiveness, although its actual effectiveness is undermined by the limits and regulatory requirements for its full application. Moreover, unlike most comparable countries, the incentive's capacity has not improved over recent years.

The evaluation concludes that the tax benefit does achieve the objective of encouraging investment in RD&I. Private investment in RD&I increases by €1.5 for each euro that Central Government allocates to the tax incentive. However, there is also a large gap between the potential effectiveness of the tax benefit and its actual effectiveness. According to AIReF, the maximum limits of the deduction play a limiting role that reduces the possibility of applying the deduction fully in each financial year. This generates significant tax credits for the future, thus reducing the incentive's appeal.

For its part, the optional regime established in 2014 allows the limits to be exceeded and the deduction to be obtained in the form of a reimbursable deduction, but it has not proved to be as effective as expected since a series of administrative requirements must be fulfilled for its application, which limits the appeal of this special regime.

Proposals

In this context, AIReF proposes removing some of the requirements to benefit from the optional regime and thus gradually bring the potential effectiveness closer to the actual effectiveness of the tax benefit. Specifically, AIReF proposes removing the obligation to maintain the general average workforce or, alternatively, the staff assigned to RD&I activities for 24 months in order to benefit from the optional regime. It also proposes allowing the application for the reimbursable deduction of the optional regime to be made in the same financial year as the right to the deduction is generated.

Furthermore, AIReF proposes setting up a quick and semi-automatic RD&I accreditation mechanism for companies whose investment in this field does not exceed a certain limit. It also recommends publishing the list of legal persons benefiting from the tax incentive to match the information published to that required for programmes of direct subsidies for RD&I in order to match the level of transparency.

The institution also proposes increasing the requirements for beneficiary companies to report on the characteristics and composition of the spending on RD&I and the results of the innovation so as to be able to perform a better evaluation of the tax incentive's effectiveness. Lastly, it proposes analysing the tax benefit together with the policies of direct transfers and subsidies within the overall policy of support for RD&I.