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Project Title: Conceptual examination of the tax credit from the perspective of research and development incentives and its implementation mechanism in Iran

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Project Necessity:

Tax credit is a new issue in Iran and it was raised for the first time in Article 11 of the Knowledge-based Production Leap Law, and so far no studies have been conducted in this field from a theoretical and fundamental point of view, especially its application in the field of energy. It seems that explaining this issue, getting to know the details of the law and executive regulations and its connection with the energy sector is one of the advantages of doing this project.

Project Goals:

- Familiarity with research and development incentives, especially the tax credit tool
- Introducing the experiences of selected countries in the implementation of research and development incentives, especially in the field of tax credits
- Identification of legislative and executive mechanisms of research and development tax credits in Iran

Abstract:

Among the tools of innovation policy, providing financial incentives for research and development and direct support for research and development in the firm are of great importance as the main tools on the supply side. Examining global experiences and trends in supporting the research and development activities of economic enterprises by governments shows that in recent years, research and development tax incentives such as "cost-oriented research and development (R&D) tax credit" have become the main tax support tools in many developed countries. In 2020, out

of 38 OECD countries, 33 countries offered various research and development tax incentives for their economic enterprises, among which 21 countries had research and development (R&D) tax credits.

Considering the importance of appropriate and calculated design of research and development (R&D) tax credit, in the first part of the report, the main and important aspects of research and development (R&D) tax credit design in OECD member countries on the axes of 1- determination of the target group, 2- eligible research and development (R&D) costs, 3- amount of research and development tax credit, 4- basis of calculation of research and development (R&D) tax credit and 5- transferability and repayment of research and development (R&D) tax credit were introduced and discussed. This section showed that the mentioned countries, in accordance with their own approaches and structures, are designing the legal and executive mechanism of tax credits.

For example, considering Austria's position in research and development (R&D) among European Union countries and the powerful monitoring and evaluation system in the electronic platform, a part of the report was dedicated to this matter and after explaining the statistics and indicators of research and development (R&D) in this country, the incentive features of its research and development (R&D) tax credit were discussed.

In the next part of the report, Iran's legislative mechanism related to the issue of research and development (R&D) tax credit was taken into consideration, and in this regard, tax incentives for research and development (R&D), including income-oriented and cost-oriented approaches, were examined. The results of this section showed that in Iran's legal system until the approval of the knowledge-based production leap law, the tax incentive with a retrospective view, only supported the winners of the research and development (R&D) path who have reached the stage of sales and income, and has not directly supported the high costs of research and development (R&D), the uncertainty and risk of conducting research and development projects, while the experience of tax protections in leading countries showed that the income exemption was limited and only related to knowledge income such as the sale of patents, and most of the support has been in the form of expenses. This challenge led to the approval of the knowledge-based production leap law, especially its article 11 in 2022, and in this regard, the issue of tax exemption was changed and attention was paid to the issue of research and development (R&D) expenses of knowledge-based companies in the form of tax credits.

In the next part of the report, knowledge-based leap law was analyzed in detail from the perspective of tax credits. Examining the key articles of the knowledge-based production leap law, the important features of tax credit in Iran, executive regulations and the mechanism of granting tax credit in Iran was analyzed in this section.

Steps and Methodologies:

The first stage, after explaining the concept of research and development tax credit through analytical-descriptive method, is dedicated to the main dimensions in the design of tax credit. At this stage, axes such as the determination of the target group, the amount of research and development tax credits, and the transferability of tax credits in OECD member countries were analyzed. In the next step, through the analysis of documents and laws related to the issue of tax credit, the legislative mechanism of Iran related to the issue of research and development tax credit was analyzed. Then, the knowledge-based production leap law was examined due to its importance in the issue of research and development tax credits. Examining the key elements of the knowledge-based production leap law, explaining the important features of tax credit in Iran, dissecting the executive regulations and explaining the mechanism of granting tax credit in Iran are among the things that were discussed at this stage.

Main Results (technical outputs, patents, papers, books, reports, etc.):

-The results of this project show that each country designs the legal and executive mechanism of tax credits according to its own approaches and structures.

-In the design of research and development tax credit, things like determining the target group, the amount of research and development tax credit, and the ability to transfer the tax credit are very important.

-The content of the knowledge-based production leap law indicates that the elements of the target group such as company size, age of the company, geographical region, type of ownership have no effect on the design of research and development tax credits.

-The content of the knowledge-based production leap law indicates that the basis for calculating the research and development tax credit in Iran is based on the base volume.

- The content of the knowledge-based production leap law indicates that research and development tax credit can be transferred to the future, and it does not have the ability to transfer to the past and also does not have the tax credit refund.

It seems that the issue of research and development (R&D) tax credit needs other researches from other aspects. In this context, titles such as examining the position of cost-based tax credit in the economic governance structure of Iran, monitoring and pathology of the legal and executive mechanisms of research and development (R&D) tax credit in Iran, identifying and analyzing scenarios for the role of Iranian research centers in relation to the tax credit tool and examining the role of knowledge-based companies in order to increase the share of research and development (R&D) through the investment of development organizations and non-governmental public institutions are suggested.