

## Document de treball de l'IEB 2009/9

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Cities and Innovation

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**ABSTRACT:** We take a critical look at how to assess the effectiveness of R&D tax incentives. The net welfare gain is shown to be sensitive to a certain number of parameters. In particular, the deadweight loss associated with level-based tax incentives depends on the ex-ante R&D level. We report on the success of a past policy changes and simulate the effect of various parameter changes in the existing Dutch R&D tax incentive scheme. We show that this policy is more effective for small firms than for large firms. We end with a discussion of the pros and cons of volume-based versus incremental R&D tax incentives.

JEL Codes: O32, O38, H25, H50

Keywords: R&D tax credits; policy evaluation; cost-benefit analysis

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\* A first version of the paper was presented at the CESifo Venice Summer Institute 2008 workshop on "Reforming Rules and Regulations – Laws, Institutions and Implementation". CESifo sponsorship to the Summer Institute 2008 is gratefully acknowledged. Part of this paper was also presented at the Expert Group Seminar "In Search of Good Practices in Evaluating R&D Tax Incentives" as part of a contribution to an Expert Group on R&D Tax Incentives Evaluation for the Research Directorate General of the European Commission. We thank the participants of both events for their critical remarks and in particular Bruno van Pottelsberghe, Jacques Mairesse and Vivek Ghosal for their valuable comments. We also wish to thank the anonymous referee for his incisive remarks. We acknowledge financial support from the SCIFI-GLOW grant no. 217436 of the 7<sup>th</sup> EU Framework Program. This paper also appeared as UNU-MERIT working paper 2009-014 and as CIRANO working paper 2009-s11.





























































