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Tax Incentives for Innovation in Brazil: Obstacles for Use of the Good Law (Law 11.196/2005)

Paloma Zimmer^{1} Cristiane Mitsue Iata¹, João Artur de Souza¹, Cristiano José Castro de Almeida Cunha¹*

Abstract: Brazil has a mix of instruments to support research and development activities, including grants and tax incentives. Among these policies, it is referred to the Law 11.196/05. According as the historical series, since the implementation of the law, the number of companies using the benefits has grown exponentially, but the number of beneficiaries is still very low. This article presents the results of the study with a group of 100 companies. The objective was to verify the innovation management practices used by these companies, as well as the main obstacles encountered by them to make use of tax incentives of the Good Law. The results showed that the biggest obstacle for use of the Good Law is the profile of the innovation projects. Companies need to actually differentiate improvement projects of the innovation projects. The minority of companies develop projects that exceed scientific or technological boundaries or having aspects out of the company's development scope.

Keywords: Tax incentive; Good Law (Law 11.196/2005); Innovation.

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Introduction

Companies mostly use their own resources to invest in research and development. According to Industrial Research of Technological Innovation, in Brazil, 87% of innovative companies use their own resources to carry out activities for innovation (IBGE, 2013). Mainly due to the risks involved and the return time, which tend to be larger. Thus, fiscal incentives such as those offered by Law 11.196/2005 (Good Law) should be more attractive for companies, having in mind that the company reduces from the income tax up to 100% of investments in research, development and innovation (RD&I). With this kind of incentive, the company reduces the risk of acquiring a debt to develop a technology that may ultimately fail in the marketplace.

However, according to the report released by the Ministry of Science, Technology and Innovation - MCTI (2015), in Brazil, in 2013, only 0.7% of companies with tax adequacy use the benefit. According as the historical series, since the implementation of the law in 2006, it is observed that the number of companies using the benefits of the law has grown exponentially, but the number of beneficiaries is still very low compared to the number of companies choosing for real profit tax (one of the prerequisites to enjoy the tax incentive).

This scenario refers to some research questions:

- Why do just few companies use the benefits of the Good Law?
- Do the companies opting for real profit tax know the Good Law?
- Do the requirements for adequacy and use of the Good Law are exclude?
- Do the companies opting for real profit tax do not use the Good Law because they do not present innovative projects?

It was observed in the literature the lack of studies to further investigate these issues from the point of view of businesses with tax adequacy to the incentives of the Good Law. Studies that support the analysis of the use of tax incentives in the business perspective do this without restrict the companies opting for real profit tax (Bueno, Torkomian, 2014; Bergamaschi, 2009).

The existing literature on the subject is divided basically into two lines:

- (i) analysis of the group of companies that already use the incentives of the Good Law and its relationship with economic performance and investment in RD&I (Zitetei, et al, 2016; Fabiani, Sbragia, 2014; Chaves, 2016; Calzolaio, 2011; Formigoni, 2008).
- (ii) studies that analyze the profile of tax incentives for the innovation in Brazil (Bueno, Torkomian, 2014; Pacheco, 2011).

This article aims to answer these questions by bringing a piece of the data collected under the project "Program of Incentives for the Use of Tax Benefits of Good Law" The project coordinated by Euvaldo Lodi Institute of Santa Catarina (IEL/SC), supported from the Ministry of Science, Technology and Innovation (MCTI), aimed to raise awareness among companies of the taxable income to make use of tax incentives of Law 11.196/2005. This article presents the results of the study with a group of 100 companies opting for real profit tax. The objective was to verify the innovation management practices used by these companies, as well as the main obstacles found by them to make use of tax incentives of the law.

Innovation

Innovation is what promotes long-term growth of an economy and ensures its competitiveness globally. Technological innovation, according to Schumpeter (1988, p. 76), creates a break in the economic system by changing patterns of production and providing differentiation for the company.

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The definition of innovation used in the Oslo Manual (2005, p.55 §146) is more lenient on the break in economic systems. The impact of innovation can only be for the company and not to the market. "An innovation is the implementation of a product (goods or services) new or significantly improved, or a process, or a new marketing method, or a new organizational method in business practices, workplace organization or external relations". Indeed, the Oslo Manual is intended to guide and mainly standardize concepts, methodologies, in order to provide a common language to build statistics and RD&I indicators of industrialized countries and Organization for Economic Co-operation and Development - OECD.

In Schumpeter's view, innovation is an aspect of business strategy or part of a set of investment decisions to create product development capacity or to improve the company's efficiency. Innovation should lead to broad and extensive changes to restructure industries and markets (Oslo Manual, 2005, §80).

As the Oslo Manual is quite comprehensive and flexible as their definitions and methodologies of technological innovation, it has been one of the main references for innovation activities in Brazilian industry (Canto in Presentation Oslo Manual, 2005).

In Brazil, the law 10.973 / 2004 (art. 2 IV), known as the Innovation Law, provides measures to encourage innovation, scientific and technological research in the production environment. This law defines innovation as "the introduction of novelty or improvements in the production and social environment that results in new products, services or processes or knowledge the addition of new functionality or features to the product, service or existing process that can result in improvements and effective gain in quality or performance".

Conforming to Drucker (2013), innovation involves economic value, i.e. innovation is the ability to create wealth through features. The feature does not exist until man finds a use and thus contemplates the economic value. This definition is used by the author for both social and technical sphere.

For the authors Tidd, Bessat and Pavitt (2008), innovation is not static, and is not always related to something that is already part of the competencies of a company. In this case the innovation involves taking risks and exploring normally scarce resources on projects that may fail.

But despite the risks, breaking projects (with disruptive innovation) bring the greatest financial returns for the company in medium and long term (Nagji, Tuff, 2012).

As reported by Calzolaio (2011) the most developed countries began to use fiscal policy as an important tool to support innovation. OECD countries used it as a true development policy instrument. It is applied vertically to encourage small business sectors in particular and specific regions and companies without taxable income.

Incentive to Innovation

Brazil has a mix of instruments to support research and development activities, including grants and tax incentives. The main reason of these incentives is to leverage private investment and support increased productivity of the economy. The Government's support to innovation and RD&I activities in private sector have increased since the creation of the Sectorial Funds. Considering all the instruments, Government's support puts Brazil among the countries that most support the private effort in RD&I (Pacheco, 2010).

The big difference between Brazil and the countries of the OECD group is the low investment in RD&I performed by the private sector. When compared to public investment, it is observed that the 0.59% of the Gross Domestic Product (GDP) is very close to the 0.69% invested by all the OECD countries (Cruz; Chaimovich, 2010).

According to Chaves (2016) Brazil has sought to adopt public innovation policies to stimulate business investments in research, development and innovation. Among these policies, it is referred to the Law 11.196/05, aim of this article.

The Brazilian government published a provisional measure (MP) 694/2015, as part of the fiscal adjustment that announced the suspension of the tax benefit provided for in Chapter III of Law 11.196 / 2005. However, on March 8, 2016 ended the deadline for conversion of MP 694/2015, which fell by lapse of time, and consequently, the Good Law has effectiveness again. Thus, the incentives for Research, Development and Innovation for Brazilian companies (Chapter III) remain valid.

The Good Law and Incentive to Innovation

Law 11.196/05, also known as the Good Law, is an incentive granted by the Federal Government, through tax breaks for companies of any segment that invest in research, development and innovation.

The activities of research and development are self-declared by the companies and they take the responsibility, business risk, management and control of the use of the results of the expenditures.

The Table 1 shows the requirements for adequacy of the company and the main benefits granted by the Government.

Table 1. Requirements and benefits of the Good Law.

Requirements for adequacy	Main benefits
<ul style="list-style-type: none"> · Be opting for real profit tax. · Have obtained tax profit for the year that held investments in RD&I. · Conduct research, development and innovation in Brazil. · Fiscal Regularity. · Fill and send the form to the MCTI with information about the project. 	<ul style="list-style-type: none"> · Income tax and social contribution of exclusion: 60% to 80% of expenditures in research and development. · 50% reduction of the IPI: Acquisition of equipment for RD&I. · Depreciation and accelerated amortization: 100% year acquisition - Exclusive RD&I. · Complementary exclusion - income tax and social contribution: 20% RD&I expenditures, patent object or cultivate. · Reduction to 0% withholding tax: Remittances abroad for the maintenance of trademarks and patents cultivars.

Data from Law 11.196/2005.

To grant the benefit, the evaluation committee MCTI analyzes the innovation projects by three criteria: (i) technologically new elements; (ii) barrier or technological challenges; (iii) used methods.

Conforming to Tininis (2015) it is in these three items that companies have more difficulty. It is an open field on the form in which the company has up to 500 characters to describe each item. The difficulty is not the restriction of text size, but the difficulty in characterizing innovation in the activity. The projects have little technological risk and are more characterized as engineering problems than RD&I projects. In fact, according to Longo and Silva (2016), the concepts of improvement/modernization and innovation are often confused, invalidating excellent opportunities for companies seeking financial support. The innovation projects are characterized by the exploration of new methods or processes, exploring new paths, features and materials. The main focus is the development, and it is precisely at this stage that operates the tax incentives of the Good Law. The incentives act in a phase that occurs technological risk.

The Good Law mainly operates in the following phases:

- directed basic research: purpose of gaining knowledge about the understanding of new phenomena, with a view to developing products, processes and innovative systems;
- applied research: the objective of gaining new knowledge, with a view to the development or improvement of products, processes and systems;
- experimental development: systematic work outlined from pre-existing knowledge, in order to prove or demonstrate the technical or functional viability of new products, processes, systems and services, or even an obvious improvement of already produced or established.

With this kind of incentive the company ceases to run the risk of acquiring a debt to develop a technology that may ultimately fail in the marketplace. Most of the activities related to research and development project are eligible. Table 2 shows the types of eligible and ineligible expenditures in the Good Law.

Table 2. Types of eligible expenditure.

Eligible expenditures	Ineligible expenditures
Human Resources.	Individuals or legal entities located abroad.
Consumption material / Equipment.	Administrative and financial management of RD&I projects.
Travel for execution of the project.	BackOffice RD&I.
Third-party services (Institutions of Science, Technology and Innovation, Micro and Small Enterprises).	Rental and maintenance of assets.
Specific training for the project.	Charges for depreciation and amortization.
	«Outsourcing» of RD&I.

Data from Good Law (11.196 / 2005).

Chaves (2015) investigated the effectiveness of the Good Law on the profitability of companies. The author measured the effect of the Good Law on Return on Assets (ROA) of publicly traded companies. The sample consisted of 173 companies, including companies that use and do not use the incentives of the law. The study results support the conclusion that the Good Law is a government mechanism that causes positive results in the economic performance of companies. According to the author, the transfer of government values to private sector through the Good Law has caused actual results in the econo-

mic performance of companies, which suggests that this instrument meets its objectives. This profitability impacts not only on increasing benefits company's competitive to the market, but also in the economic development of the country.

Calzolaio (2011) examined whether the companies using the Good Law intensified its research and development activities after receiving the tax incentives of the law. The study showed that the Good Law strengthened innovation, i. e. the companies that have used it spent

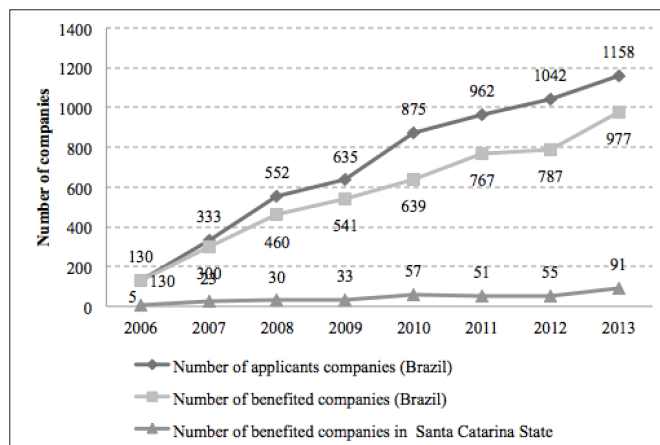
on RD&I as never since 1998. There was efficient in reducing the cost of innovation activities and the expansion of innovation plans already in place. The Good Law not expanded the base of innovative companies, but intensified RD&I activities of companies that were already veterans in innovation. The tax incentive is an appropriate tool to induce greater amounts of innovation activities that are being performed.

However, Zittei et al (2016) concluded that the amounts spent on innovation by companies that enjoy the Good Law do not influence the nations competitiveness index. The relationship is between the number of companies investing in RD&I and not on the amount invested. This reinforces the importance of raising awareness among a larger number of enterprises to use the tax benefits of the law.

According to Pacheco (2010) the difficulty for increases the use of the Good Law is that the benefits focus on a small number of companies. The incentives of the Good Law are limited to companies opting for real profit tax. However, even if the benefit is restricted to such companies, the number that enjoys these benefits is extremely low.

In Chart 1 are illustrated the historical data with the number of companies requesting benefit since the creation of the Good Law. As can be seen, despite having increased the number of the companies using incentives over the years, this amount is still small.

Chart 1. Historical series with the number of companies that applied for and used tax incentives of the Good Law (Law 11.196 / 2005).



Adapted MCTI (2015).

In Santa Catarina, a Brazilian state, where the study was conducted, in 2013 only 91 companies received the benefit of the Good Law. The state has 9175 companies opting for real profit tax. Only 1% of these companies requested benefit. The state has an important industrial park, representing the 6th largest economy in Brazil, and the 4th state in number of manufacturing industries (IBGE, 2016).

In a survey conducted by the Public Leadership Centre (2015), Santa Catarina occupies the 3rd position in the ranking of the competitiveness of states. The study analyzes 10 categories: market potential;

infrastructure; human capital; education; social sustainability; public security; fiscal sustainability; public machine efficiency; innovation; and environmental sustainability. In the innovation category, which analyzes public investment in RD&I (the number of patents applied and academic production) the state also occupies the 3rd position in the ranking. In this pillar, the average utilization of Brazil was 24%, while Santa Catarina got 62%. In the number patent applications, the state had 100% success.

These results show that the state has companies with the ability to RD&I and also has infrastructure installed for conducting research and development.

Methodological procedures

This article provides a cut of the data collected under the project “Program of Incentives for the Use of Tax Benefits of Good Law “. The project was coordinated by Euvaldo Lodi Institute of Santa Catarina (IEL/SC) and was supported by Ministry of Science, Technology and Innovation (MCTI), aimed to raise awareness among companies of the taxable income to make use of tax incentives of Law 11.196/2005.

One of the project phases was conduct a survey about innovation practices and the adequacy of companies opting for the real profit tax with requirements of the Good Law. The objective was to verify the reasons why companies do not use the tax benefits of the Good Law. This article presents the results of this survey.

To meet this goal we carried out a search of mixed methods. According to Creswell (2007, p.27) research mixed methods “is a research approach that combines or associates qualitative and quantitative ways.” They are two approaches with antagonistic characteristics, so the analysis of the data was combined in a complementary way. The choice of this technique has mainly for two reasons:

- i) Because it is a descriptive study, the executing agency of the project - Euvaldo Lodi Institute of Santa Catarina - had to have statistical information that allowed propose actions to promote the industry competitiveness of the state. Thus, a survey was the most suitable method.
- ii) However, as the survey addresses issues related to the adequacy for RD&I projects to the tax incentive of Good Law, it was necessary to analyze in more detail the specificities of each company. For the kind of detail needed, conducting in-depth interviews with semi-structured script was the most appropriate technique.

Thus, the study was conducted in two stages. The first consisted in the survey with a group of companies opting for real profit tax. The objective was to verify if companies knew the Good Law, had innovation practices, and adequacy to the minimum prerequisites for using the tax incentives of the Good Law. In the second stage of the study were conducted in-depth interviews with 30 companies in order to check the composition of RD&I projects to the law incentives and analyze the perception of the company related to the law.

Frame 3. Methodological description. Data from authors.

	Kind of research	Objectives	Sample size
Step 1	Quantitative	<ul style="list-style-type: none"> · Verify whether the companies opting for tributary of the taxable income regime know the Good Law. · Explore whether the group of companies have practices that promote innovation, and conduct research and development activities. · Analyze whether companies meet the minimum requirements framework for using the incentives of the Good Law. · Examine the management controls of expenses incurred in RD&I. 	100 companies
Step 2	Qualitative	<ul style="list-style-type: none"> · Observe the adequacy for RD&I projects to the incentives of the Good Law. · Examine the perception of the company in relation to the law. 	30 companies selected in step 1.

Below are detailed the techniques used at each stage of the research.

Procedures Step Quantitative

Data collection instrument

The data collection instrument was developed from instruments already validated and widely used to evaluate the innovative practices in Brazilian companies. It was used as a reference the questionnaires used by ABDI (2015); Souza and Ruthes (2013); and IBGE (2012). On the questions that assessed the adequacy of the companies to the Good Law requirements, it was used as basis the own Law 11.196/2005, and the form used for MCTI to analyse the investments in RD&I.

To evaluate the innovation practices and the adequacy of the Good Law were developed two indexes. We used Cronbach's alpha to measure the reliability and internal consistency of the scale (Curtain, 1993). The test results validated the two indexes, Innovation Practices obtained 0.84 and Adequacy with the Good Law obtained 0.87.

The pre-test questionnaire was conducted with a group of eight companies, four users of the tax incentives of the Good Law, and four non-users. The purpose of the pre-test was to determine whether respondents understood the questions and see whether the questions really differentiated companies. The user companies of tax incentives of Good Law obtained the best results in indexes of Innovation Practices and Adequacy with the Good Law.

The questionnaire was developed for self-administrated and the form of data collection was carried out online, by Survey Monkey tool. The consistency of all responses was verified by the research team after the full completion of the questionnaire. If inconsistencies were noted in the answers, respondents were again contacted to verify the validity of the answer.

Population and Sample definition

The study population are all industries with headquarters in Santa Catarina opting for real profit tax. The Microsoft Dynamics CRM (Customer Relationship Management) was used to access the contact information of the industries. This software is used by the Industry Federation of Santa Catarina State - FIESC. In the data collection

period - between the months of July 2015 and March 2016 - had been 2.346 (N) industries by the real profit tax.

All industries received invitation, either by email or phone contact, to participate in the survey. Invitations were addressed to those responsible for areas: accounting; financial; engineering; development; or marketing. At the end of the data collection period, 100 (n) companies had responded to the questionnaire. Considering the level of confidence of 95%, the survey error margin was 10%. The actual practice, these studies, in general, it does not have a purely probabilistic analysis. That is, with a random sample. In this study, it is a representative purposive sample.

Qualitative stage procedures

The relationship between the levels of innovation practices and the adequacy of the Good Law allowed positioning of the companies in areas of expertise. Those with better positioning in both indexes received a free consultancy to check the composition of innovation projects to the requirements of the law. During the consultancy there were conducted in-depth interviews.

The qualitative stage provided greater understanding regarding the research and development activities undertaken by the company. The purpose of this step was to observe the adequacy of RD&I projects to the incentives of the Good Law. The interviews in-depth guide was designing by three consultants specialized in the Good Law. The guide of interview had questions about insecurity, bureaucracy, governance issues and knowledge of the law.

The interview lasted approximately two hours. For confidentiality reasons, since it dealt with issues related to RD&I projects, interviews were not recorded.

The interview was conducted by two consultants specializing in the implementation and management of incentives provided by the Good Law. At the end, information interviews were transcribed and tabulated in order to measure the results.

Results

All companies in the study are opting for real profit tax and they operate in different segments of the economy, such as: food industry; machines and equipment; technology of information and communication; textile; chemicals - plastics; and construction.

The sample was composed by companies of different sizes, but with a predominance of medium-large companies (Table 1). The rating of the BNDES (National Bank of Development) was used to categorize the size of the companies. This rating considers the revenue of the company.

Table 1. Business Size (classification by revenues).

Company size (BNDES rating)	Percentage
Large company (revenues exceeding R\$ 300 million)	8.0%
Average large company (revenues exceeding R\$ 90 million and less than R \$ 300 million)	26.0%
Medium business (revenues exceeding R\$ 16 and less than R \$ 90 million)	41.0%
Small business (revenues exceeding R\$ 2.4 and less than R \$ 16 million)	19.0%
Microenterprise (lower revenues of R\$ 2.4 million)	4.0%
Uninformed	2.0%
Total	100.0%

Source: primary data - Survey of 100 companies.

Although the researched companies self-reported as innovative, over half (54%) of companies do not have a formalized area of RD&I (Table 2).

Innovation processes must permeate throughout the organization. The activities should not be restricted to one area. However, for the management of innovation, is needed to monitor indicators, monitor actions, etc. The RD&I area is responsible for monitoring these processes and propose improvements. The absence of a formalized area of RD&I hinders the systematization of innovation management.

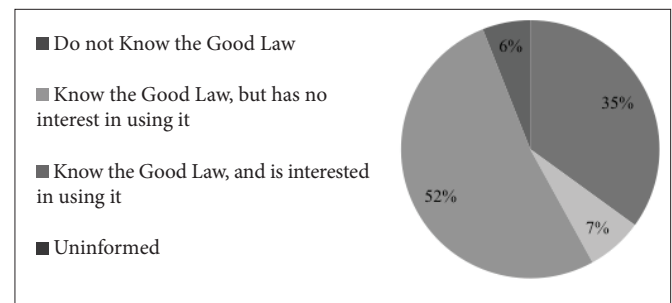
Table 2. The company has formalized area of RD&I.

Formalized area of RD&I	Percentage
It does not have RD&I area formalized	54.0%
Yes, it has RD&I area formalized	44.0%
Uninformed	2.0%
Total	100.0%

Source: primary data - Survey of 100 companies.

It appears that a significant number of businesses unaware of the Good Law. Approximately four of ten company's surveyed claim to ignore the incentives granted by Law 11.196/2005. Just over half (55%) claim to know the law and have an interest in using it (Chart 2).

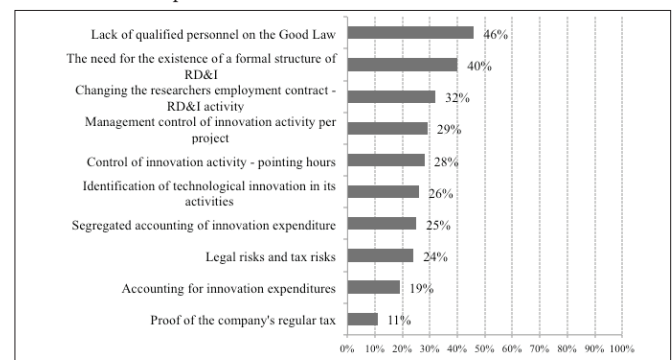
Chart 2. Knowledge of the Good Law.



Source: primary data - Survey of 100 companies.

When asked about the aspects that hinder the use of tax incentives of the Good Law (Chart 3), it appears that the major obstacles are the lack of professionals with sufficient knowledge of the law and the need for a formal structure for research, development and innovation. Proof of tax compliance was an item mentioned by the minority of companies.

Chart 3. Aspects that hinder the use of incentives of Good Law.

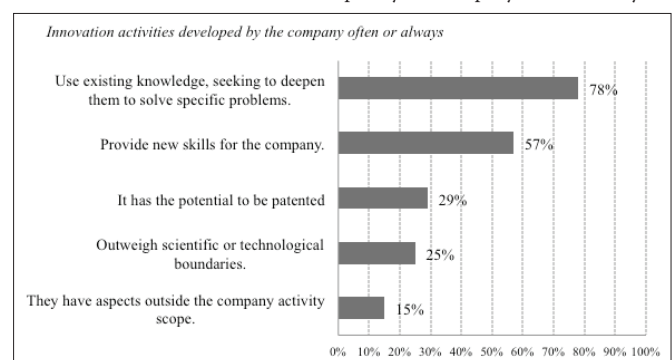


Source: primary data - Survey of 100 companies.

When analyzing the types of knowledge and novelty of research and development projects conducted by the company (Chart 4), it appears that the projects have low potential adequacy in the Good Law. The minority of companies develop projects that exceed scientific or technological boundaries or having aspects out of the company's development scope.

The projects, mostly, are limited to deepen existing knowledge in the company, seeking to solve specific problems.

Chart 4. Innovation activities developed by the company often or always.



Source: primary data - Survey of 100 companies.

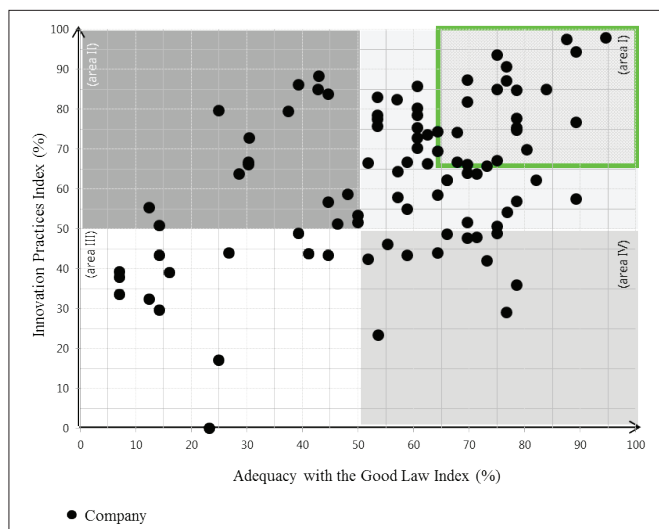
The scatterplot (Chart 5) presents the position of the 100 companies regarding the indexes of the practices of innovation and adequacy to the Good Law (on the horizontal axis contains the position of the adequacy to the Good Law, and the vertical axis shows the position in the innovation practices index).

Companies with higher performance in the indexes of innovation practices and adequacy to the Good Law are positioned well in the green area. Approximately 29% of companies have performance in index of innovation practices and adequacy to the Good Law above 65%. Theoretically, these companies have the potential to benefit from the tax incentives of the Good Law. However, you must check the eligibility of the projects according to the risk and technological challenge that claim to overcome.

Companies in the area II (dark gray), despite their good performance in the index on innovation practices, lack adequate to Good Law because they do not have structured innovation area with formal researchers, appointment of hours per project and expenses innovation escrowed apart. These companies need to “organize the house” if they want to resort to any kind of financial subsidy for innovation projects.

Companies positioned in the area IV (light gray) have innovation practices still “shy”, but are already structured related to the management controls of expenditure on innovation.

Chart 5. Results innovation index versus adequacy of the Good Law.



Source: primary data - Survey of 100 companies.

The Good Law benefits the innovation projects. About that, a company may have more than one project with adequacy with the law. Then, for analyze the adequacy of the projects in the Good Law was necessary to visit the company. This brought more security for the company exposes their projects and, especially, gave the opportunity to clarify the main doubts of the company to fill out the MCTI form. So, 30 best performing companies in the indexes of Adequacy with the Good Law and Innovation Practices received a free consultancy with a specialist at Good Law.

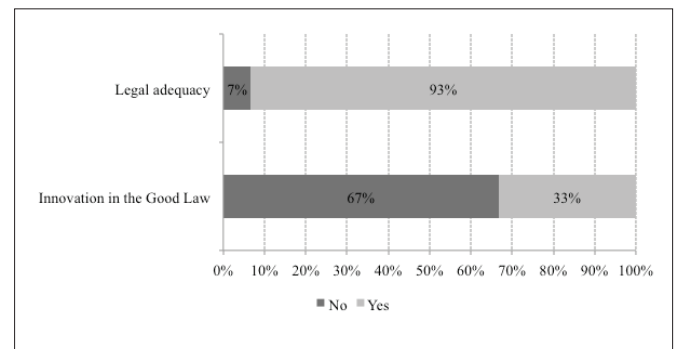
The main objective of the consultancy was to analyze the adequacy of the company's innovation projects to the main analysis criteria used by MCTI evaluators (technologically new element; barrier or technological risk; used methods).

Results of the consultancy – adequacy of projects in the Good Law

Companies that have received consultancy have the legal adequacy required to use the incentives of the Good Law (invest in innovation in Brazil, are opting for tributary of the taxable income regime, have regular tax and presented tax income in the base year). However, when analyzing the adequacy of innovation projects regarding new technological elements and barriers or technological challenges, it appears that innovation projects are, in most part, restricted to incremental innovations or product improvements/process.

Of the 30 companies that received the consultancy, only 1/3 had innovation projects with adequacy to requirements of the Good Law (Chart 6). That is, in fact present to gain competitiveness in the market.

Chart 6. Legal adequacy and Innovation in the Good Law.



Source: primary data - depth interviews 30 companies.

In addition to the adequacy of the projects, during the in-depth interview conducted in the consulting stage, was analyzed the perception of innovation team as (Chart 7): insecurity in using the benefits; bureaucracy to manage the resources invested; existing governance structure in the company to conduct activities of research and development; and knowledge about the law.

- Insecurity - this construct evaluates how the company has understanding about the Good Law and about the adequacy of their projects in the law. In the 30 companies visited, this construct was perceived as the greatest obstacle to the use of incentives of the Good Law. Companies have some uncertainty to the project adequacy according to the evaluation criteria of MCTI.

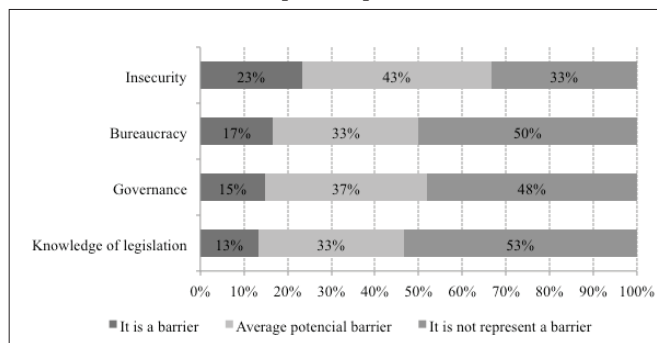
- These results corroborate those found by Fabiani and Sbragia (2014). The authors analyzed a group of 26 companies that use tax incentives of the Good Law. The main obstacles to use incentives the law are uncertainty in identifying the innovation process.

· Bureaucracy - this construct evaluates how the management of innovation expenditure can be seen as bureaucratic for the company (notes of hours per project, bookkeeping from innovation expenditure and project team of Research and Development formalized). It is noticed that few companies understand the controls as something bureaucratic. In fact the visited companies already have implemented these practices.

· Governance - make use of the Good Law involves different areas of the company. Therefore, it is necessary to establish governance in the company, involving different sectors of the organization. The visited companies do not observe the creation of a governance structure as an obstacle. The companies already have governance formed for the innovation projects or quality programs.

· Knowledge of legislation - this construct measures how the lack of knowledge of the law can be a hindrance. For the companies visited, knowledge of the law is not considered an obstacle.

Chart 7. Perception of potential barriers.



Source: primary data - depth interviews 30 companies.

Conclusion

It is known the growth of the country through the investment in research, development and innovation. In Brazil, the Federal Government, through MCTI, uses the mechanism of Good Law to encourage investment in innovation by the private sector. It seeks to approach companies from universities and research institutes, enhancing the results in RD&I. Companies need to take advantage of these tax incentives to be more daring in innovation projects, having in mind that almost 100% of the costs of the project can be reduced from income tax.

The group of companies that participated in the study is very diverse regarding the practices of innovation and adequacy to the requirements of the Good Law. The results of the survey with the group of 100 companies it can be concluded that most companies have projects with low potential of innovation to overcome technological boundaries - that provide greater gain in competitiveness. Most innovation projects use existing and dominated knowledge by the company, seeking only deepen them.

It was observed in the group of 100 companies surveyed, that the main reasons for non-use of tax incentives of the Good Law are the little knowledge about the law. It was found that both professionals working in accounting as research and development do not know the types of incentives granted and the type of project adequacy. Another important aspect presented in the study was the lack of a formalized structure for research and development activities.

It is not the kind of taxation that restricts the use of incentives of the Good Law, but the profile of the innovation projects. To increase the number of companies using the incentives of the law is not just a matter of extending the benefits for the companies deemed income. Companies need to separate improvement projects from innovation projects.

The results of this study showed that only 1% of the taxable income of the companies use the incentives of the Good Law. In other words, there are a significant number of companies opting for real profit tax that still need to be sensitized to the implementation of innovative projects that overcome technological barriers.

One recommendation is to encourage the rapprochement of businesses with science and technology institutions for the development of research projects and innovation. Such investment is also supported by the Good Law, provided that the activities are carried out in Brazil. This is a first step for companies that do not have installed structure of RD&I, or qualified professionals, to initiate the activities in this area.

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